

Ochsner Health System and Subsidiaries

Consolidated Financial Statements
as of and for the Years Ended
December 31, 2010 and 2009, and
Independent Auditors' Report

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/24/11

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Health System:

We have audited the accompanying consolidated balance sheets of Ochsner Health System (OHS) and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of OHS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OHS' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OHS as of December 31, 2010 and 2009, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 31, 2011

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 93,861	\$ 46,641
Assets limited as to use required for current liabilities	3,754	2,189
Patient accounts receivable — net	197,882	195,322
Accounts receivable other	16,850	18,823
Pledges receivable — net	6,297	3,289
Inventories	35,788	32,048
Prepaid expenses and other current assets	20,703	13,477
Estimated third-party payor settlements — net	<u>5,675</u>	<u>19,498</u>
Total current assets	<u>380,810</u>	<u>331,287</u>
ASSETS LIMITED AS TO USE:		
By board for capital improvements, charity, research, and other	319,779	255,645
Under bond indenture agreements	29,009	37,191
Under loan agreements	2,428	1,544
Under self-insurance trust fund	8,587	10,156
Donor-restricted long-term investments	<u>45,831</u>	<u>43,306</u>
Total assets limited as to use	405,634	347,842
Less assets limited as to use required for current liabilities	<u>(3,754)</u>	<u>(2,189)</u>
Noncurrent assets limited as to use	<u>401,880</u>	<u>345,653</u>
INVESTMENTS IN UNCONSOLIDATED AFFILIATES, REAL ESTATE AND OTHER	7,758	7,683
PROPERTY — Net	547,718	494,754
GOODWILL — Net	43,097	42,693
INTANGIBLE ASSETS — Net	11,556	11,509
OTHER ASSETS	<u>11,547</u>	<u>7,587</u>
TOTAL	<u>\$ 1,404,366</u>	<u>\$ 1,241,166</u>

See notes to consolidated financial statements.

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 73,993	\$ 49,698
Accrued interest	3,033	3,063
Accrued salaries and wages	52,960	38,938
Accrued compensation for absences	31,768	28,263
Deferred revenue	2,759	1,643
Other	42,399	41,554
Pension and postretirement obligations -- current portion	5,430	8,475
Bonds payable -- current portion	5,100	4,850
Notes payable -- current portion	52,969	32,969
Long-term debt -- current portion	<u>3,097</u>	<u>625</u>
Total current liabilities	273,508	210,078
PENSION AND POSTRETIREMENT OBLIGATIONS	72,264	61,660
BONDS PAYABLE	439,415	444,240
LONG-TERM DEBT	73,405	53,002
OTHER LONG-TERM LIABILITIES	<u>11,437</u>	<u>12,407</u>
Total liabilities	<u>870,029</u>	<u>781,387</u>
COMMITMENTS AND CONTINGENCIES (Notes 4 and 14)		
NET ASSETS:		
Unrestricted	479,540	411,245
Temporarily restricted	32,432	26,511
Permanently restricted	<u>22,365</u>	<u>22,023</u>
Total net assets	534,337	459,779
TOTAL	<u><u>\$ 1,404,366</u></u>	<u><u>\$ 1,241,166</u></u>

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED REVENUES:		
Net patient service revenue	\$ 1,742,869	\$ 1,587,829
Other operating revenue	78,925	69,346
Net assets released from restrictions used for operations	<u>3,461</u>	<u>3,050</u>
Total unrestricted revenues	<u>1,825,255</u>	<u>1,660,225</u>
EXPENSES:		
Salaries and wages	762,579	689,434
Benefits	112,910	107,240
Depreciation and amortization	57,659	60,423
Interest	26,027	24,475
Medical services to outside providers	124,933	114,601
Medical supplies and services	263,804	241,266
Provision for bad debts	126,955	123,665
Other operating expenses	<u>302,383</u>	<u>267,234</u>
Total expenses	<u>1,777,250</u>	<u>1,628,338</u>
OPERATING INCOME	48,005	31,887
NONOPERATING GAINS AND LOSSES --- Investment and other gains --- net	<u>14,172</u>	<u>12,185</u>
EXCESS OF REVENUES OVER EXPENSES	62,177	44,072
CHANGE IN NET UNREALIZED GAINS	15,176	34,898
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	<u>4,564</u>	<u>4,911</u>
INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	81,917	83,881
PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(13,502)	51,961
OTHER	(120)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE --- Reclassification of net assets		<u>42</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 68,295</u>	<u>\$ 135,884</u>

See notes to consolidated financial statements.

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 62,177	\$ 44,072
Change in net unrealized gains	15,176	34,898
Net assets released from restrictions used for capital acquisitions	4,564	4,911
Pension related changes other than net periodic pension costs	(13,502)	51,961
Other	(120)	
Cumulative effect of change in accounting principle — Reclassification of net assets		42
	<u>68,295</u>	<u>135,884</u>
INCREASE IN UNRESTRICTED NET ASSETS		
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	10,774	4,487
Investment income — net of payments to beneficiaries	3,172	4,723
Other		2
Net assets released from restrictions:		
Operations	(3,461)	(3,055)
Capital acquisitions	(4,564)	(4,911)
Cumulative effect of change in accounting principle — Reclassification of net assets		(42)
	<u>5,921</u>	<u>1,204</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS		
PERMANENTLY RESTRICTED NET ASSETS — Contributions	<u>342</u>	<u>1,368</u>
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS		
	<u>342</u>	<u>1,368</u>
INCREASE IN NET ASSETS	74,558	138,456
NET ASSETS -- Beginning of year	<u>459,779</u>	<u>321,323</u>
NET ASSETS — End of year	<u>\$ 534,337</u>	<u>\$ 459,779</u>

See notes to consolidated financial statements.

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 74,558	\$ 138,456
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Pension related changes other than net periodic pension costs	13,502	(51,961)
Depreciation and amortization	57,659	60,423
Provision for bad debts on patient accounts and other receivables	126,955	124,211
Contributions restricted for long-term investments	(342)	(1,368)
Contributions restricted for capital acquisitions	(563)	(357)
Net realized and unrealized gains on investments	(18,908)	(40,547)
Gain on acquisition of Ochsner Medical Center — Northshore LLC (Note 2)	(3,327)	
Loss (gain) on disposal of fixed assets — net	111	(28)
Gain on sale of Ochsner Home Health Corporation and St. Anne Home Health (Note 1)		(9,645)
Changes in operating assets and liabilities:		
Patient accounts receivable	(129,515)	(115,397)
Other current and noncurrent assets	(1,748)	713
Accounts payable	25,912	(17,577)
Accrued interest and other liabilities	11,105	25,221
Net cash provided by operating activities	<u>155,399</u>	<u>112,144</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of assets whose use is limited and other investments	(76,491)	(22,872)
Acquisition of Ochsner Medical Center — Northshore LLC (Note 2)	(10,886)	
Sales and maturities of assets whose use is limited and other investments	40,329	5,717
Capital expenditures	(74,272)	(41,380)
Proceeds from asset disposal	626	806
Proceeds from sale of Ochsner Home Health Corporation and St. Anne Home Health (Note 1)		7,402
Acquisition of Ochsner DME, LLC (Note 2)	(730)	
Purchase of accounts receivable		(26,250)
Net cash used in investing activities	<u>(121,424)</u>	<u>(76,577)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bonds payable and long-term debt	(8,450)	(6,147)
Net draws (payments) on notes payable	20,790	(4,615)
Proceeds from contributions restricted for long-term investments	342	1,368
Proceeds from contributions restricted for capital acquisitions	563	357
Net cash used in (provided by) financing activities	<u>13,245</u>	<u>(9,037)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>47,220</u>	<u>26,530</u>
CASH AND CASH EQUIVALENTS — Beginning of year	<u>46,641</u>	<u>20,111</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 93,861</u>	<u>\$ 46,641</u>
SUPPLEMENTAL DISCLOSURE — Cash paid for interest (net of amounts capitalized)	<u>\$ 24,031</u>	<u>\$ 25,098</u>
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property purchases included in accounts payable	<u>\$ 3,578</u>	<u>\$ 1,961</u>

The purchase of Ochsner Medical Center — Northshore LLC in April 2010 was funded partially by \$23,640,000 in external financing.

In 2009, OHS financed equipment of \$4,614,000 (Note 9).

See notes to consolidated financial statements

OCHSNER HEALTH SYSTEM AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Ochsner Health System (OHS or “Ochsner”) is a not-for-profit, non stock membership corporation formed during 2006 as the parent company of Ochsner Clinic Foundation (OCF) and Ochsner Community Hospitals (OCH).

In September 2006, OCF amended its articles of incorporation and by-laws to provide that OHS is the sole member of OCF with the authority to appoint the community directors of OCF, constituting a majority of its OCF board of directors. The consolidated balance sheets and statements of activities of OCF as of and for the years ended December 31, 2010 and 2009, have been included in the OHS consolidated financial statements.

OCF (formerly Alton Ochsner Medical Foundation or Foundation), located in New Orleans, Louisiana, is a not-for-profit institution reporting its activities in the following net asset categories:

Unrestricted:

- Foundation Activities
- Ochsner Foundation Hospital (“Hospital”)
- Ochsner Foundation Hospital – Westbank Campus
- Research
- Education
- Elmwood Fitness Center
- Brent House Corporation
- Ochsner Home Health Corporation (dissolved December 2009)
- Ochsner Clinic LLC (“Clinic”)
- Gulf Coast Physician Network LLC (GCPN)
- Ochsner Bayou LLC
- East Baton Rouge Medical Center LLC (“Ochsner Medical Center – Baton Rouge”)
- Ochsner DME LLC (formed December 2009)
- Ochsner System Protection Company (formed December 2009)
- Ochsner Medical Center – Northshore LLC (formed April 2010)

Temporarily restricted:

- Foundation Activities
- Research
- Education

Permanently restricted:

- Foundation Activities
- Research

On August 31, 2001, the Foundation and the Clinic effected a merger transaction resulting in the net assets of Ochsner Clinic, LLC being acquired by Alton Ochsner Medical Foundation. Ochsner Clinic, LLC is a multi-specialty group physician practice operating out of three primary locations and several satellite clinics in the New Orleans and Baton Rouge areas. In connection therewith, the name of Alton Ochsner Medical Foundation was changed to Ochsner Clinic Foundation (OCF), and the Clinic became a wholly owned subsidiary of OCF. As part of the merger transaction, the Foundation purchased the membership interests of the former members of the Clinic and the Foundation became the sole member of the Clinic.

The Hospital's medical and teaching staffs consist of physicians associated with the Clinic, a group practice of over 850 physicians. OCF also engages in a wide range of medical research, which is conducted by the Clinic's physicians. OCF established the Brent House Corporation to acquire and operate the Brent House Hotel for the general benefit of the patients of OCF.

In 2009, OCF formed Southeast Louisiana Homecare, LLC (SLH), a joint venture with a third party. Coincident therewith, OCF sold 100% of the assets of Ochsner Home Health Corporation and St. Anne Home Health, including related licenses, to SLH and received consideration of \$7,402,000 in cash and a 25% membership interest in SLH. SLH operates as a home health agency and is being accounted for on the equity method of accounting by OCF subsequent to the sale. Also in 2009, Ochsner DME LLC and Ochsner System Protection Company LLC were established. Ochsner DME LLC was formed for the purpose of selling and leasing durable medical equipment and Ochsner System Protection Company, LLC operates as a wholly-owned captive insurance company domiciled in the state of Louisiana.

In 2010, OCF purchased Northshore Regional Medical Center from Tenet Healthcare Corporation and Healthcare Property Partners. The facility operates as Ochsner Medical Center – Northshore (see Note 2).

OHS is also the sole member of Ochsner Community Hospitals (OCH), a not-for-profit entity formed in July 2006 to acquire three former Tenet hospitals in the greater New Orleans area. The acquisition of the hospitals took place on October 1, 2006. The individual hospitals were formed as not-for-profit, wholly owned limited liability subsidiaries of OCH and were as follows:

- Ochsner Medical Center Kenner, LLC — formerly Kenner Regional Medical Center in Kenner, Louisiana
- Ochsner Medical Center Westbank, LLC — formerly Meadowcrest Hospital in Gretna, Louisiana (until the facility's operations were transferred to OCF on September 14, 2008).
- Ochsner Baptist Medical Center, LLC — formerly Memorial Medical Center in New Orleans, Louisiana

Basis of Presentation and Principles of Consolidation — The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of OCF, OCH, and their wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OHS' financial statements are pension assumptions, allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Charity Care — OHS, through OCF and OCH, provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because OHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone for charity care, based on established rates, were approximately \$2,335,000 and \$2,084,000 during the years ended December 31, 2010 and 2009, respectively.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or under bond indenture agreements.

Inventories — Inventories are stated at the lower of first-in, first-out cost or market.

Pledges Receivable — Unconditional promises to give are recognized as revenues at their fair values in the period received. Pledges receivable are recorded net of necessary discounts and allowances.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include investments in private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the financial statements and those without readily marketable fair values are accounted for under the equity method, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses in unrestricted net assets (performance indicator) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of (deficiency in) revenues over expenses. If management believes a decline in the value of a particular investment is temporary, the decline is included in unrealized losses on the consolidated statements of operations. If the decline is evaluated as being "other than temporary," the carrying value of the investment is written down and a realized loss is recorded in the consolidated statements of operations. OHS recorded impairment charges on investment securities of approximately \$813,000 and \$3,841,000 for the years ended December 31, 2010 and 2009, respectively.

Assets Limited As to Use — Assets limited as to use primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees primarily for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Foundation have been classified in the consolidated balance sheets as current assets.

Property — Net — Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets, as follows:

	Years
Land improvements	5-25
Buildings and building improvements	10-40
Leasehold improvements	12-20
Equipment, furniture, and fixtures	1-20

Impairment of Long-Lived Assets — OHS periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Capitalization of Interest — OHS capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OHS' average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled \$278,000 and \$864,000 for the years ended December 31, 2010 and 2009, respectively.

Goodwill and Intangible Assets — Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded as a result of OCF's merger with the Clinic in 2001. Goodwill and intangible assets were amortized on a straight-line basis over periods generally ranging from 2 to 20 years as required under Accounting Principles Board (APB) Opinion No. 17, *Intangible Assets* through December 31, 2009. Effective fiscal 2010, goodwill and intangible assets with indefinite useful lives are no longer amortized in accordance with ASC 350, *Intangibles - Goodwill and Other* (see "New Accounting Pronouncements" section).

Deferred Revenue — OHS, through OCF, engages in research activities funded by contracts from U.S. Government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred.

Deferred Financing Costs — In connection with the issuance of the series 2007 bonds and notes payable (see Notes 7 and 8), financing costs approximating \$5,675,000 were capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximated \$537,000 and \$374,000 at December 31, 2010 and 2009, respectively.

Professional and General Liability Insurance — Professional and general liability claims have been asserted against OHS by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Incidents occurring through December 31, 2010, may result in the assertion of additional claims. OHS participates in a risk management program to provide for professional and general liability coverage. Under this program, OCF carries professional and general liability insurance coverage for up to \$40 million each of annual aggregate claims subject to certain deductible provisions and OCH carries professional and general liability insurance coverage for up to \$25 million each of annual aggregate claims subject to certain deductible provisions.

OCF, with the exception of Ochsner Medical Center – West Bank, Ochsner Medical Center – North Shore, and Ochsner Medical Center – Baton Rouge, is self-insured with respect to the first \$3,000,000 of each claim for professional liability with an aggregate exposure of \$6,000,000. General liability claims are subject to a retention of \$1,000,000 per claim and \$2,000,000 aggregate (up to an annual combined aggregate of \$8,000,000). For Ochsner Medical Center – West Bank and Ochsner Medical Center – Northshore LLC, the retention is reduced to \$100,000 for each individual general and professional liability claim. OCH is self-insured with respect to the first \$100,000 of each claim for professional liability. General liability claims are subject to a retention of \$100,000 per claim.

As stated below, professional liability claims are limited by Louisiana statute to \$100,000 per occurrence. OCF and OCH have made contributions to a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements are made from the fund for self-insured professional and general liability claims, claims administration costs and legal fees. The trust fund assets total approximately \$8,587,000 and \$10,156,000 at December 31, 2010 and 2009, respectively. The estimated liability recorded by OHS for claims at December 31, 2010 and 2009, based on the actuarial report mentioned above is approximately \$12,341,000 and \$12,346,000 respectively. The estimated liability was discounted at 3.5% for OCF and 2.7% for OCH at December 31, 2010. The estimated liability was discounted at 4.5% for OCF and 4.1% for OCH at December 31, 2009. Amounts accrued relate to funding for fiscal 2010 and, upon payment, will increase the fund to a balance which approximates the actuarial liability. If the risk management program is terminated, the trust fund balance, if any, reverts to OHS after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

Ochsner Medical Center – Baton Rouge has its own policy for professional liability claims, which does not include a retention. The estimated liability recorded by Ochsner Medical Center – Baton Rouge for claims at December 31, 2010, based on the actuarial report discounted at 4.0% is approximately \$531,000.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to \$500,000, the first \$100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund for participants in the fund. OHS participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OHS for participation in the Patient's Compensation Fund for the years ended December 31, 2010 and 2009, were approximately \$20,561,000 and \$18,179,000, respectively.

Estimated Workers' Compensation and Employee Health Claims — The provisions for estimated workers' compensation and employee health claims, totaling \$8,383,000 and \$8,675,000 at December 31, 2010 and 2009, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. These estimates incorporate OHS' past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by OHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by OHS in perpetuity.

Consolidated Statement of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income, which is reported as nonoperating.

Excess of Revenues Over Expenses — The consolidated statements of operations and changes in net assets include excess of (deficiency in) revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of (deficiency in) revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, contributions of property and equipment, contributions used to acquire property and equipment, and pension related changes other than net periodic pension costs.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Fair Value of Financial Instruments — The following methods and assumptions were used by OHS in estimating the fair value of its financial instruments:

Current Assets and Liabilities — OHS considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Investments — The fair values of OHS' marketable equity and debt securities are based on quoted market prices in an active market. The carrying amounts reported in the consolidated balance sheets for OHS' other investments approximate fair value (See Note 16).

Bonds Payable — The fair values of OHS' revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 8.

Notes Payable and Long-Term Debt — OHS considers the carrying value of its notes payable to approximate fair value at December 31, 2010 due to the variable nature of the interest rate.

Income Taxes — OHS and its subsidiaries qualify as tax exempt organizations under Section 501 (c)(3) and/or 509 (a)(1)/(3) of the Internal Revenue Code and are exempt from Federal and State income taxes.

Concentration of Credit Risk — OHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties — OHS' business could be impacted by continuing price pressure on new and renewal business, OHS' ability to effectively control health care costs, additional competitors entering OHS' markets, and Federal and State legislation in the area of health care reform. Changes in these areas could adversely impact OHS' operations in the future.

Reclassifications — We have recast certain amounts for prior periods to conform to our 2010 presentation. Current and noncurrent portion of long-term debt of \$625,000 and \$7,908,000, respectively, was reclassified from notes payable – current portion and other long-term liabilities, respectively, to long-term debt – current portion and long-term debt, respectively.

New Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, *Intangibles – Goodwill and Other*. ASU 2010-07 provides guidance on how a not-for-profit entity determines whether a combination is a merger or an acquisition, applies the carryover method in accounting for a merger, applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. ASU 2010-07 is effective prospectively for mergers that occur at or after the beginning of an initial reporting period that begins on or after December 15, 2009, and acquisitions that occur at or after the beginning of the first annual reporting period that begins on or after December 15, 2009. In addition, ASU 2010-07 applied previously issued guidance regarding the periodic impairment evaluation for goodwill and the accounting for noncontrolling interests to not-for-profit entities for reporting periods beginning on or after December 15, 2009. OHS adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized, resulting in a decrease in amortization expense of \$4,640,000 in the statement of operations for fiscal year 2010. OHS will review goodwill and intangible assets for impairment at least annually. There was no impact to OHS' financial statements related to the adoption of the provisions related to the accounting for noncontrolling interests.

In August 2008, the FASB issued FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosure for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 was codified in June 2009 as ASC Topic 205-958-45, *Presentation – Not for Profit Entities* (ASC 205). ASC 205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA, which the state of Louisiana enacted the on July 1, 2010. OHS retroactively adopted the provisions of UPMIFA and ASC 205 as of January 1, 2009, and as a result, reclassified \$42,000 of temporarily restricted net assets as of December 31, 2009 to unrestricted net assets. These reclassifications have been reported as a cumulative effect of change in accounting principle in the statement of operations for the year ended December 31, 2009. In addition to this reclassification of net assets, \$467,000 of net gains on investments that were reported previously as unrestricted gains on investments, net of distributions, have been reclassified to temporarily restricted income on investments in the statement of operations for the year ended December 31, 2009.

2. BUSINESS COMBINATION AND PURCHASE ACCOUNTING

Ochsner Medical Center - Northshore LLC — On April 1, 2010, OHS purchased Northshore Regional Medical Center in Slidell, Louisiana from Tenet Healthcare Corporation and Healthcare Property Partners. The facility will operate as Ochsner Medical Center - Northshore LLC.

Total purchase price for the facility was approximately \$32,800,000 in addition to net asset adjustments and closing costs of \$617,000. The acquisition was funded through cash on hand at the date of acquisition as well as through external financing. As part of the acquisition, OHS allocated the purchase price to the acquired assets and liabilities.

The financial statements of the facility acquired primarily consist of property, plant, and equipment and working capital items. The following is a summary of the funding sources for these transactions (in thousands):

Cash	\$ 10,886
External financing	<u>23,640</u>
Total sources of acquisition funding	<u>\$ 34,526</u>

The purchase price allocation has been prepared on a preliminary basis and changes may occur as additional information becomes available. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Inventory	\$ 1,648
Prepaid expenses and other current assets	114
Property, plant, and equipment	32,800
Other assets	<u>1,404</u>
Total assets acquired	35,966
Total liabilities assumed	<u>1,440</u>
Purchase price	<u>\$34,526</u>

Ochsner DME LLC— On December 27, 2010, OHS purchased Total Health Solutions, a healthcare products, supply and solutions business licensed to provide durable medical equipment from Healthcare Development Group, L.L.C. The entity will operate as Ochsner Durable Medical Equipment, L.L.C. (Ochsner DME LLC).

Total purchase price for the facility was approximately \$730,000 in addition to net asset adjustments. The acquisition was funded through cash on hand at the date of acquisition. As part of the acquisition, OHS allocated the purchase price to the acquired assets and liabilities.

The purchase price allocation has been prepared on a preliminary basis and changes may occur as additional information becomes available. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition (in thousands):

Inventory	\$ 231
Property, plant, and equipment	95
Goodwill	<u>404</u>
Total assets acquired	<u>730</u>
Purchase price	<u>\$ 730</u>

3. INVESTMENTS

A summary of the carrying value of OHS' investments at December 31, 2010 and 2009, follows (in thousands):

	2010	2009
Marketable equity securities	\$153,349	\$123,277
Money market funds	104,453	78,348
Fixed income investments	81,251	92,184
Alternative	58,229	42,050
Real estate	5,441	5,441
Investment in unconsolidated affiliates	3,391	3,317
Cash and cash equivalents	2,974	2,709
Other	<u>4,304</u>	<u>8,199</u>
Total	<u>\$413,392</u>	<u>\$355,525</u>

Investment income and other gains and losses are classified as nonoperating and are comprised of interest and dividend income of \$9,482,000 and \$7,003,000 and realized net gains on sales of securities of \$4,690,000 and \$5,292,000 for the years ended December 31, 2010 and 2009, respectively.

Alternative investments — Alternative investments include private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market (market risk).

Investment Impairment — OHS recorded impairment charges on investment securities of approximately \$813,000 and \$3,841,000 for the years ended December 31, 2010 and 2009, respectively. The investment securities on which the impairment charge was recorded were primarily equity securities, which are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments below the performance indicator. The fair value of investments is based on quoted market prices. Upon management's review and evaluation of the individual investment securities for year 2009, management deemed the market decline for certain investment securities (predominantly in the technology and communications industries as well as international securities) to be "other-than-temporary", primarily due to OHS' lack of ability to hold the securities until recovery due to the use of an investment manager to execute investment transactions and decisions. The related adjustment to fair value for these investment securities was recognized in realized losses as a part of the performance indicator.

As of December 31, 2010 and 2009, there were no investments with a decline in fair value from cost as all amounts were considered other than temporary impairments and, as noted above, were recognized as realized losses as a part of the performance indicator.

4. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2010 and 2009, OHS' patient accounts receivable balances were due from the following sources (in thousands):

	2010	2009
Managed care/indemnity	\$ 162,923	\$ 164,464
Government agencies	81,744	75,022
Patients	<u>67,608</u>	<u>84,151</u>
Total	312,275	323,637
Less allowance for doubtful accounts	<u>(114,393)</u>	<u>(128,315)</u>
Patient accounts receivable --- net	<u>\$ 197,882</u>	<u>\$ 195,322</u>

5. PROPERTY — NET

OHS' investment in property at December 31, 2010 and 2009, is detailed as follows (in thousands):

	2010	2009
Land and improvements	\$ 81,906	\$ 69,365
Buildings	672,257	630,372
Leasehold improvements	45,162	40,851
Equipment, furniture, and fixtures	495,288	464,040
Building and building improvements held for lease	5,489	5,489
Construction in progress	<u>28,153</u>	<u>16,600</u>
Total property — at cost	1,328,255	1,226,717
Less accumulated depreciation	<u>(780,537)</u>	<u>(731,963)</u>
Property — net	<u>\$ 547,718</u>	<u>\$ 494,754</u>

Depreciation and amortization expense totaled approximately \$57,659,000 and \$55,769,000 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, OHS has purchase commitments totaling approximately \$18,064,000 and \$14,999,000, respectively, toward additional capital expenditures.

6. GOODWILL AND INTANGIBLE ASSETS — NET

As stated in Note 1, on August 31, 2001, OCF and the Clinic effected a merger transaction resulting in the net assets of the Clinic being acquired by Alton Ochsner Medical Foundation.

The cost to acquire the Clinic was allocated to the assets acquired and liabilities assumed according to their estimated fair values. In addition, the carrying values of certain other assets and liabilities of the Clinic were changed to reflect management's estimate of fair value under purchase accounting.

Amounts recorded as goodwill and intangible assets as of December 31, 2010 and 2009, are (in thousands):

	2010	2009
Goodwill	\$ 73,592	\$ 73,188
Less accumulated amortization	<u>(30,495)</u>	<u>(30,495)</u>
Goodwill - net	<u>\$ 43,097</u>	<u>\$ 42,693</u>
Trade name	\$ 19,600	\$ 19,600
Other	<u>986</u>	<u>939</u>
Total	20,586	20,539
Less accumulated amortization	<u>(9,030)</u>	<u>(9,030)</u>
Intangible assets — net	<u>\$ 11,556</u>	<u>\$ 11,509</u>

Prior to January 1, 2010, OHS amortized goodwill and intangible assets on a straight line basis using 20 years as the useful lives. Amortization expense related to goodwill and intangibles totaled approximately \$3,660,000 and \$994,000, respectively, for the year ended December 31, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, Intangibles -- Goodwill and Other. OCF adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized.

In 2010, OHS recorded an additional \$404,000 goodwill in connection with the acquisition of Ochsner DME LLC (see Note 2).

7. NOTES PAYABLE

OCF — OCF has a loan agreement with a bank which provides a credit line. The loan agreement was amended on September 29, 2009 to establish the interest rate on outstanding borrowings as the 30 day LIBOR index plus one hundred (100) basis points (1.00%) and set an expiration/renewal date of September 28, 2010. On March 31, 2010, the note was further amended to increase the amount available under the note from \$33,000,000 to \$53,000,000, modify the interest rate to 30 day LIBOR index plus one hundred fifty (150) basis points (1.50%), and set an expiration/renewal date of March 29, 2011. The line of credit was renewed through May 31, 2011. Borrowings under the arrangement are unsecured, however OCF must meet certain financial covenants. OCF was in compliance with these covenants at December 31, 2010 and 2009. At December 31, 2010 and 2009, OCF had borrowings outstanding under this arrangement of \$52,969,000 and \$32,969,000, respectively. At December 31, 2010 and 2009, the amount of line of credit reserved for three standby letters of credit with a utility provider amounted to \$31,500 for both years. The interest rate on outstanding borrowings is based on LIBOR and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 1.76% and 1.24% at December 31, 2010 and 2009, respectively. All amounts are classified as current at December 31, 2010 and 2009.

8. BONDS PAYABLE

At December 31, 2010 and 2009, bonds payable consist of the following tax-exempt revenue bonds issued by the Louisiana Public Facilities Authority (LPFA) on behalf of OCF and OCH (in thousands):

	2010	2009
OCF Series 2007-A issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	\$ 377,450	\$ 378,770
OCH Series 2007-B issued September 2007, due serially 2009–2047, annual interest rates ranging from 5.00% to 5.50%	<u>77,025</u>	<u>80,555</u>
Total	454,475	459,325
Less current portion	(5,100)	(4,850)
Less unamortized net bond discount	<u>(9,960)</u>	<u>(10,235)</u>
Noncurrent portion of bonds payable	<u>\$ 439,415</u>	<u>\$ 444,240</u>

The OCF Series 2007-A bonds were issued by the LPFA on behalf of OCF for the purpose of advance refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects. The \$380,030,000 Revenue Bonds were issued at fixed rates through the LPFA at a discount of approximately \$9,000,000.

OCH issued the Louisiana Public Facilities Authority Bond Series 2007-B bonds for the purpose of refinancing a portion of the interim loan from Lehman Brothers, which was used to acquire the Tenet Hospitals, as well as providing funding for capital projects. The \$83,910,000 Revenue Bonds were issued at fixed rates through the Louisiana Public Facilities Authority at a discount of approximately \$1,896,000 and mature in May 2047.

The Series 2007-A and 2007-B bonds are general obligations of OCF and OCH, respectively. The Series 2007-A bonds are general obligations of OCF, and all present and future accounts receivable are pledged to repayment of the bonds. The OCH Series 2007-B bonds are guaranteed by OCF through a joint and several Guarantee Agreement ("Guarantee Agreement") secured by a mortgage and security interest in all present and future accounts receivable of OCF's as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable should OCH fail to pay. OCH is obligated to reimburse OCF for any amount OCF has to pay under the guaranty, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH and its subsidiaries.

Also, under the terms of the bond indenture, OCF and OCH are required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the financial statements. The bond indenture also places limits on the incurrence of additional borrowings by OCF and requires that OCF satisfy certain measures of financial performance as long as the bonds are outstanding. OCF is currently in compliance with these requirements.

At December 31, 2010, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31	
2011	\$ 5,100
2012	5,360
2013	5,635
2014	5,925
2015	6,230
Thereafter	<u>426,225</u>
	<u>\$ 454,475</u>

The estimated fair value of the 2007-A and B Series bonds as of December 31, 2010 and 2009, is approximately \$396,235,000 and \$425,034,000.

9. LONG-TERM DEBT

A summary of long-term debt at December 31, 2010 and 2009 is as follows (in thousands):

	2010	2009
Notes payable \$25 million, including interest at three-month LIBOR less 2.25% (0.00% and 0.00% at December 31, 2010 and 2009, respectively), due October 2014	\$ 23,094	\$ 23,719
Notes payable \$22 million, including interest at three-month LIBOR less 2.35% (0.50% and 0.50% at December 31, 2010 and 2009, respectively), due February 2015	22,000	22,000
Working capital note, due May 2016, including accrued interest	8,029	7,908
Equipment loan, due December 2011	1,844	
Equipment loan, due April 2015	7,795	
Loans on land and building, due April 2015	15,640	
Less unamortized discount	<u>(2,568)</u>	<u> </u>
Total loans on land and building	13,072	
Software loan, due September 2012	<u>668</u>	<u> </u>
Total long-term debt	76,502	53,627
Less current portion	<u>(3,097)</u>	<u>(625)</u>
Noncurrent portion of long-term debt	<u>\$ 73,405</u>	<u>\$ 53,002</u>

New Market Tax Credits — In 2007, OCH entered into three separate loans in the form of notes payable with three separate lenders totaling \$25 million. The loans are eligible for federal income tax credits under the New Markets Tax Credits program implemented by Congress in December 2000. Borrowings under the notes payable bear interest at three-month LIBOR less 2.25% (0.00% and 1.633% at December 31, 2010 and 2009, respectively). Principal and interest payments are due in quarterly installments which commenced on October 1, 2007 and mature in October 2014. Each of the loans is guaranteed by OCF through the Guarantee Agreement.

In 2008, OCH entered into a loan in with a financial institution in the form of a note payable totaling \$22 million. The loan is eligible for the same federal income tax credits as the aforementioned \$25 million loan. Borrowings under the note payable bear interest at three-month LIBOR less 2.35%, subject to a 0.50% floor (0.50% and 0.50% at December 31, 2010 and 2009, respectively). Interest payments are due in quarterly installments which commenced on April 1, 2008, and the loan matures in February 2015. The principal payment is due in one lump sum on the maturity date. This loan is guaranteed by OCF.

St. Anne — On May 1, 2006, OCF entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche"), who owns and operates St. Anne General Hospital and related facilities ("St. Anne") of Raceland, Louisiana. Under the agreements, OCF leases the St. Anne buildings and facilities, purchased working capital and certain equipment of St. Anne's and operates the hospital for a specified period of time (see further discussion at Note 14). As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment. On December 31, 2010, OCF and Lafourche executed an amendment in which the principal and all accrued and unpaid interest of \$8,029,000 became the new principal amount of the note and the note was extended for five years to a maturity date of May 1, 2016. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 1.49% and 1.60% at December 31, 2010 and 2009, respectively. All amounts are classified as non-current at December 31, 2010 and December 31, 2009 and are included in long-term debt on the consolidated balance sheets. Due to the variable nature of the interest rate, carrying value approximates fair value of this note.

Equipment Loan — In November 2009, OCF and OCH entered into an agreement to finance equipment purchases in the amount of \$4,614,000. Equipment purchases were received by OCF and OCH in March 2010. Principal payments are due in annual installments which commenced on December 31, 2009 and mature in December 2011.

Ochsner Medical Center – Northshore LLC — OCF's purchase of Northshore Regional Medical Center on April 1, 2010 was partially financed by an \$8,000,000 equipment loan and a \$15,640,000 loan on the land and buildings. The equipment loan has a term of 60 months with a balloon payment due on April 1, 2015. The loan on land and buildings is also due on April 1, 2015.

Software Loan — In July 2010, OHS entered into a loan to finance software purchases for \$1,003,000. Borrowings under this loan are interest free. Principal payments are due in semi-annual installments which commenced on September 1, 2010 and mature in October 2012.

Aggregate maturities of long-term debt at December 31, 2010, is as follows (in thousands):

Years Ending December 31	
2011	\$ 3,097
2012	1,904
2013	2,039
2014	21,695
2015	26,666
Thereafter	<u>23,669</u>
	<u>\$ 79,070</u>

10. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan — Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan. The plan is noncontributory and provides benefits that are based on the participants' credited service and average compensation during the last five years of covered employment. As of December 31, 2006, benefit accruals ceased for all plan participants under age 40 and those over 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the plan and as of December 31, 2009 benefit accruals cease for all plan participants under age 55 with less than 10 years of service (rounded to the nearest 6 months). Physician/executive participants are frozen as of December 31, 2009, regardless of age and service. Participants who are not frozen as of December 31, 2009 can accrue benefits until the earlier of age 65 or December 31, 2014. No new participants are allowed to enter the plan. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. OCF makes contributions to its qualified plan that satisfies the minimum funding requirements under Employee Retirement Income Security Act of 1974. These contributions are intended to provide not only for benefits attributed to services rendered to date but also those expected to be earned in the future.

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost (in thousands):

	2010	2009
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 366,112	\$ 351,176
Service cost	1,550	7,550
Interest cost	22,088	21,599
Actuarial loss	23,960	4,179
Curtailments		(4,725)
Benefits paid	<u>(15,480)</u>	<u>(13,667)</u>
Benefit obligation — end of year	<u>398,230</u>	<u>366,112</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	300,319	242,039
Actual return on plan assets	35,665	64,876
Employer contributions	8,053	7,071
Benefits paid	<u>(15,480)</u>	<u>(13,667)</u>
Fair value of plan assets — end of year	<u>328,557</u>	<u>300,319</u>
Funded status	<u>\$ (69,673)</u>	<u>\$ (65,793)</u>
	2010	2009
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	\$ -	\$ -
Pension and postretirement obligations — noncurrent portion	(69,673)	(65,792)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	\$ 95,954	\$ 82,545
Prior service credit	<u>(209)</u>	<u>(271)</u>
Total amounts recognized	<u>\$ 95,745</u>	<u>\$ 82,274</u>
Other changes in plan assets and benefit obligations recognized in accumulated unrestricted net assets:		
Net (gain) loss	\$ 14,942	\$ (43,958)
Recognized loss	(1,534)	(10,983)
Recognized prior service credit	<u>63</u>	<u>2,855</u>
Total amounts recognized	<u>\$ 13,471</u>	<u>\$ (52,086)</u>

Weighted-average assumptions used to determine projected benefit obligations at December 31, 2010 and 2009, were as follows:

	2010	2009
Weighted-average discount rate	5.70 %	6.15 %
Rate of compensation increase	Graded	Graded

Net periodic pension cost for the years ended December 31, 2010 and 2009, includes the following component (in thousands):

	2010	2009
Service cost	\$ 1,551	\$ 7,551
Interest cost	22,088	21,599
Expected return on plan assets	(26,647)	(21,465)
Amortization of net loss	1,533	10,983
Recognized prior service credit	(63)	(588)
Recognized gain due to curtailments		(2,267)
Net periodic pension (benefit) cost	<u>\$ (1,538)</u>	<u>\$ 15,813</u>

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Weighted average discount rate	6.15 %	6.25 %
Expected return on plan assets	9.00	9.00
Rate of compensation increase	Graded	Graded

The defined benefit pension plan asset allocation as of the measurement date (December 31, 2010 and December 31, 2009) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2010	2009	Target Allocation
Debt securities	34 %	33 %	25%-30%
Equity securities	41	42	37%-50%
Private equity/venture capital	2	1	0%-7%
Hedge funds	13	14	10%-15%
Natural Resources/REITs	10	9	3%-10%
Other	1	1	0%

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings several times during the year by the Investment Committee of OCF. OCF utilizes an investment consultant and multiple managers for different asset classes. The Investment Committee takes into account liquidity needs of the plan to pay benefits in the short-term and the anticipated long-term obligations of the plan.

The primary financial objectives of the plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the plan's annual benefit obligations; and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the plan. The long-term investment objectives of the plan are to (1) attain the average annual total return assumed in the plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; (2) outperform the plan's custom benchmark; and (3) outperform the median return of a pool of retirement funds to be identified in conjunction with OCF's investment consultant.

The asset allocation is designed to provide a diversified mix of asset classes including U.S. and foreign equity securities, fixed income securities, real-estate investment trusts, natural resources, cash, and funds to hedge against deflation and inflation. Risk management practices include various criteria for each asset class including measurement against several benchmarks, achievement of a positive risk adjusted return, and investment guidelines for each class of assets which enumerate types of investment allowed in each category.

The OCF Retirement Plan Statement of Investment Policies and Objectives provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. OCF Treasury staff oversees the day-to-day activities involving assets of the Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the defined benefit pension plan of approximately \$5.0 million in 2011.

For 2010 and 2009, OCF's defined benefit plan had accumulated benefit obligations of approximately \$395,047,000 and \$362,500,000, respectively.

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,812,000 and \$1,464,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2010, are as follows (in thousands):

**Years Ending
December 31**

2011	\$ 19,186
2012	20,339
2013	21,444
2014	22,851
2015	23,978
2016-2020	<u>135,272</u>
	<u>\$ 243,070</u>

Defined Contribution Plans — All employees of OHS meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the "Plan"). Also, effective for the 2010 Plan year, OCF may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual Eligible Compensation. In addition, OHS may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2010 and 2009, OHS has accrued \$16,362,000 and \$7,762,000 for matching contributions to the plan for the 2010 and 2009 fiscal years, respectively. The 2009 contribution was remitted to the Trustec in April 2010 and the 2010 contribution will be remitted in April 2011.

Certain OHS employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009 whose benefits in the defined benefit pension plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. The expense associated with this plan was \$3,433,000 the year ended December 31, 2010. OHS's consolidated balance sheet reflect a liability of \$3,433,000 for the 457(f) plan at December 31, 2010

Other Postretirement Benefits --- OCF also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for OCF. OCF funds these benefits on a pay-as-you-go basis.

The following table sets forth the plan's funded status and expense recognized by OCF as of and for the years ended December 31, 2010 and 2009, using the projected unit credit method (in thousands).

Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 2,518	\$ 2,216
Interest cost	147	141
Benefits paid	(210)	(195)
Actuarial gain	<u>225</u>	<u>356</u>
Benefit obligation — end of year	<u>\$ 2,680</u>	<u>\$ 2,518</u>
Change in plan assets:		
Fair value of plan assets -- beginning of year	\$ -	\$ -
Actual gain on plan assets		
Employer contributions	210	195
Benefits paid	<u>(210)</u>	<u>(195)</u>
Fair value of plan assets -- end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u>\$ (2,680)</u>	<u>\$ (2,518)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	\$ (241)	\$ (212)
Pension and postretirement obligations — noncurrent portion	(2,439)	(2,306)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	978	809
Prior service credit	(143)	(164)

Components of net periodic cost at December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Service cost	\$ -	\$ -
Interest cost	146	141
Recognized prior service cost	(20)	(20)
Recognized actuarial loss	<u>57</u>	<u>38</u>
Net periodic cost	<u>\$183</u>	<u>\$159</u>
	2010	2009
Weighted average assumptions — December 31:		
Discount rate on benefit obligation	5.70 %	6.15 %
Discount rate on net periodic cost	6.15	6.25

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is \$76,000 and \$20,000, respectively.

OCF currently expects to make a contribution to the other postretirement benefit plan of approximately \$248,000 in 2011.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2010, are as follows (in thousands):

**Years Ending
December 31**

2011	\$ 248
2012	252
2013	255
2014	249
2015	240
2016–2020	<u>1,110</u>
	<u>\$2,354</u>

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 5.5% by 2012 and remain at that level thereafter (in thousands).

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	<u>\$ 7</u>	<u>\$ (6)</u>
Effect on postretirement benefit obligation	<u>\$ 124</u>	<u>\$ (109)</u>

Executive Benefit Plan — Certain former Alton Ochsner Medical Foundation executives participate in an Executive Benefit Plan. The expense associated with this plan was \$78,000 and \$136,000, respectively, for the years ended December 31, 2010 and 2009. OCF's consolidated balance sheets reflect a liability of \$1,272,000 and \$1,278,000 for this plan at December 31, 2010 and 2009, respectively.

11. ENDOWMENTS AND TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

OHS has 588 temporarily restricted funds and 57 permanently restricted funds established for a variety of purposes. These funds are classified and reported based on the existence or absence of donor-imposed restrictions. Restricted net assets include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research and Alzheimer's Research.

The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted the on July 1, 2010, requires OHS to classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure. Management retroactively adopted UPMIFA as of January 1, 2009.

UPMIFA also requires that OHS preserve the historic dollar value of the donor restricted endowed funds. Therefore, permanently restricted net assets contain the aggregate fair market value of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund.

Restricted Net Assets as of December 31, 2010 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	\$ 6,994	\$ 16,474	\$ 23,468
Education	3,845	2,627	6,472
Other	<u>21,593</u>	<u>3,264</u>	<u>24,857</u>
Total	<u>\$ 32,432</u>	<u>\$ 22,365</u>	<u>\$ 54,797</u>

Restricted Net Assets as of December 31, 2009 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	\$ 6,265	\$ 16,419	\$ 22,684
Education	3,499	2,528	6,027
Other	<u>16,747</u>	<u>3,076</u>	<u>19,823</u>
Total	<u>\$ 26,511</u>	<u>\$ 22,023</u>	<u>\$ 48,534</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ 4,066	\$ 22,365	\$ 26,431
Board-designated funds	<u>\$ 2,571</u>	<u> </u>	<u> </u>	<u>2,571</u>
Total	<u>\$ 2,571</u>	<u>\$ 4,066</u>	<u>\$ 22,365</u>	<u>\$ 29,002</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ 2,777	\$ 22,023	\$ 24,800
Board-designated funds	<u>\$ 2,745</u>	<u> </u>	<u> </u>	<u>2,745</u>
Total	<u>\$ 2,745</u>	<u>\$ 2,777</u>	<u>\$ 22,023</u>	<u>\$ 27,545</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$2,745	\$2,777	\$22,023	\$24,800
Investment (loss) income	(47)	2,687		2,687
Contributions			342	342
Appropriations for expenditures	<u>(127)</u>	<u>(1,398)</u>	<u> </u>	<u>(1,398)</u>
Ending balance	<u>\$2,571</u>	<u>\$4,066</u>	<u>\$22,365</u>	<u>\$26,431</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$2,009	\$ 718	\$ 20,655	\$ 21,373
Net asset reclassification for change in accounting principle	<u>42</u>	<u>(42)</u>	<u> </u>	<u> </u>
Beginning balance, as restated	2,051	676	20,655	21,373
Investment income	764	2,959		2,959
Contributions			1,368	1,368
Appropriations for expenditures	<u>(70)</u>	<u>(858)</u>	<u> </u>	<u>(858)</u>
Ending balance	<u>\$2,745</u>	<u>\$2,777</u>	<u>\$ 22,023</u>	<u>\$ 24,842</u>

Funds with Deficiencies — From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires OHS to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled \$0 and \$226,000 as of December 31, 2010 and 2009, respectively. Any such deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters — OHS has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that OHS must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. OHS expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives — To satisfy its long-term rate-of-return objectives, OHS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. OHS uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and How the Investment Objectives Relate to Spending Policy — It is OHS's objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes that will increase with the rate of inflation, and to continue to invest in accordance with policy goals of providing for a rate of growth in the endowment earnings that meets or exceeds the rate of inflation. The annual spending appropriation will be subject to a minimum rate of 4% and a maximum rate of 7% of each endowment funds' current market value. Temporarily restricted net assets, along with other donor restricted funds, include the spending appropriation and investment income of the endowments and are pending appropriation for expenditure consistent with the specific purpose of the fund.

12. NET PATIENT SERVICE REVENUE

Net patient service revenue is recognized when services are provided. OHS has agreements with third-party payors that provide for payments to OHS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

A summary of the significant payment arrangements with major third-party payors follows:

Medicare and Medicaid — Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare inpatient rehabilitation services are also paid at prospectively determined rates per discharge, based on a patient classification system. Psychiatric services rendered to Medicare beneficiaries are reimbursed on a prospectively determined rate per day. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per diem based on a patient classification system. The Medicare program's share of indirect medical education costs is reimbursed based on a stipulated formula. The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits.

OHS records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary. The difference between estimated and audited settlements is recorded as an adjustment to net patient service revenue in the year a determination is made. The favorable resolution of Medicare reimbursement issues under appeal by OHS is reported as an increase in net patient service revenue in the year the issue is resolved. Home health services rendered to Medicare beneficiaries are reimbursed under the Medicare Home Health Prospective Payment System.

Estimated amounts due OHS for Medicare and Medicaid services are included in receivables at year end. Net revenue from government health care programs included in net patient service revenue in 2010 and 2009 approximated \$459,344,000 and \$414,022,000, respectively.

As a result of retroactive settlements of certain prior year cost reports, OHS recorded changes in estimates during the years ended December 31, 2010 and 2009. Operating revenues increased approximately \$6,685,000 and \$6,229,000 in 2010 and 2009, respectively, as a result of these changes.

Upper Payment Limit Program — During December 2010, Ochsner and four other health care providers formed collaborations with the State and a unit of local government in Louisiana, Jefferson Parish Hospital Service District No. 1, to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and these four other health care providers formed two non-profit organizations, Louisiana Clinical Services, Inc. (LCS) and Southern Louisiana Clinical Services, Inc. (SLCS), the purpose of which is to create a vehicle to provide charity care services in the providers' communities. The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. Under the agreement between the collaborative members, the Program became effective on December 1, 2010, and the first year of the Program runs from December 1, 2010 to November 30, 2011. Ochsner received \$8,000,000 from the State of Louisiana on December 31, 2010 for the first year of the Program. Because the program was not fully operational until fiscal 2011, Ochsner has recorded this amount as deferred revenue in the accompanying consolidated balance sheet.

Humana Inc. — OHS entered into a provider contract with Humana Inc. to provide services for its commercial and senior members. The commercial members are reimbursed on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. OHS provided services to the senior members under a capitation contract for both physician and hospital services. Net revenue from Humana Inc., net of medical services to outside providers, in 2010 and 2009 approximated \$317,770,000 and \$286,740,000, respectively.

Managed Care — OHS has also entered into contractual arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

13. FUNCTIONAL EXPENSES

OHS provides general health care services primarily to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Health care services	\$1,326,547	\$1,263,366
General and administrative	394,393	298,070
Medical education	32,685	39,450
Research	9,924	9,219
Home health		1,902
Fitness center	10,950	11,155
Hotel	2,751	5,176
	<u>\$1,777,250</u>	<u>\$1,628,338</u>

14. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments — OHS leases assets under various rental agreements. The following schedule summarizes OHS's future annual minimum rental commitments on leases with a remaining term, as of December 31, 2010, in excess of one year (in thousands):

Years Ending December 31	
2011	\$28,868
2012	21,556
2013	14,030
2014	7,605
2015	5,083
Thereafter	<u>19,237</u>
Total	<u>\$96,379</u>

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was \$40,667,000, and \$39,963,000 for the years ended December 31, 2010 and 2009, respectively.

St. Anne's Transaction — On May 1, 2006, OCF entered into certain lease and management service agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche") to 1) lease the 35-bed hospital it owns and operates known as St. Anne General Hospital and its facilities ("St. Anne") located in Raceland, Louisiana, 2) purchase certain assets and liabilities of St. Anne, and 3) provide managerial, administrative, financial, and technical support services to operate the hospital. Under the lease agreement, OCF is required to pay \$4.6 million in base rental payments for the use of the St. Anne buildings as well as make capital improvements to the facility based on predetermined levels of financial performance during the initial 15 year term. Total required rent payments, including the base rent and required capital improvements cannot exceed \$15 million over the initial term of the lease. Amounts due under the terms of this agreement may be reduced through certain credits against required payments and capital improvements. All amounts owed under this agreement are payable on the last day of the lease term, but can be discharged, in whole or in part, before the end of the period. The term of the agreement is through 2021 with two options for renewal periods up to an additional 30 years. The building lease is accounted for as an operating lease under ASC 840, *Leases*, and lease commitments are included in the lease commitment schedule above.

In connection with the lease of the buildings, OCF purchased certain equipment and fixtures and the working capital of the hospital by issuing a note payable to Lafourche of \$7.1 million (see Note 9). The note payable is due to Lafourche. In addition, OCF assumed Lafourche's outstanding bonds payable of \$2.7 million which were subsequently paid in full by OCF. As noted above, OCF is required to make certain capital improvements over the term of the lease. Upon termination of the lease agreement, OCF is required to sell, and Lafourche is required to purchase, the assets included in the initial purchase, including any additional and replacement equipment similar to the type originally purchased, for a cash purchase price equal to the net book value of the assets as of the date of the lease termination. Revenues and expenses generated by St. Anne's operations since the inception of the lease are included in the consolidated statements of operations of OHS.

Operating Leases — Lessor — OHS leases office space to other businesses. Lease terms generally range from one to four years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under operating leases as of December 31, 2010:

Years Ending December 31	
2011	\$ 1,966
2012	1,579
2013	998
2014	<u>237</u>
Total minimum lease payments to be received	<u>\$ 4,780</u>

Contingencies — The health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OHS and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of its business. Management of OHS believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on OHS' consolidated statements of financial position or results of operations.

During 2009, OHS completed an on-going internal review of its past billing practices for certain Medicare inpatient and outpatient services and has been engaged in on-going discussions with the appropriate federal and state regulatory authorities as well as the fiscal intermediary related to this matter. OHS has concluded that the manner in which OHS billed the Medicare program for certain services resulted in an overpayment by the Center for Medicaid and Medicare Services from 1994 through 2007, the majority of which related to the 2004 through 2007 periods. OHS has since repaid a portion of the overpayments through cost report adjustments and submitted final repayment for the remaining amount in 2010.

In September 2009, OHS indefinitely suspended operations at its in vitro fertilization center due to the mislabeling of frozen embryos. There are 46 patients who have either filed a lawsuit or a claim before the Louisiana Patient Compensation Fund (PCF) alleging mishandling in the labeling and storage of embryos between 2004 and 2007. The Louisiana Patient's Compensation Fund has taken the position that this liability is not covered by the PCF. However, these cases are covered by Ochsner's professional liability coverage.

Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors ("RACs") to identify Medicare overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. During 2010, OCF was selected for review by RAC auditors. Management of OHS believe that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

15. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OHS received federal disaster relief funds of \$32,600,000 and \$16,300,000 for the years ended December 31, 2010 and December 31, 2009, respectively.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 — Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

Level 3 — Unobservable inputs for the asset or liability.

OHS endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OHS has elected the fair value option, are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

	December 31, 2010			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds (a)	\$ 108,418	\$ -	\$ -	\$ 108,418
Fixed income investments (a)	80,266			80,266
Marketable equity securities (a)	127,053	26,295		153,348
Absolute return (d)			11,985	11,985
Private equity / venture capital (d)			5,864	5,864
Natural resources (b)	22,439	14,392	3,550	40,381
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			3,391	3,391
Treasury inflation protected securities (a)	4,293			4,293
Other			5	5
Total	\$ 342,469	\$ 46,128	\$ 24,795	\$ 413,392

	December 31, 2009			
	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds (a)	\$ 81,066	\$ -	\$ -	\$ 81,066
Fixed income investments (a)	92,184			92,184
Marketable equity securities (a)	103,043	20,234		123,277
Absolute return (d)			11,179	11,179
Private equity / venture capital (d)			3,745	3,745
Natural resources (b)	12,173	12,615	2,338	27,126
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			3,317	3,317
Treasury inflation protected securities (a)	8,187			8,187
Other			3	3
Total	<u>\$ 296,653</u>	<u>\$ 38,290</u>	<u>\$ 20,582</u>	<u>\$ 355,525</u>

- (a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.
- (b) Represents funds invested in common/collective trust funds. Investments classified as Level 1 represent a fund that is publicly traded. Valuation of this fund is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 classification represents a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. The estimated fair value is based upon reported Net Asset Value (NAV) provided by fund managers and this value represents the amount at which transfers into and out of the fund are effected. This fund provides reasonable levels of price transparency and can be corroborated through observable market data.
- (c) Represents OHS' investments in real estate located in the New Orleans area. The estimated fair value is based on market prices for similar assets as these assets are not priced in active markets.
- (d) In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. However, if key inputs are unobservable, or if the investments are less liquid and there is very limited trading activity, the investments are generally classified as Level 3. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency in the process to develop the valuation estimates generally causing these investments to be classified in Level 3. This category includes funds that are invested in hedge fund and private equity investments that provide little or no price transparency due to the infrequency with which the underlying assets trade and generally require additional time to liquidate in an orderly manner. Accordingly, the values of these alternative asset classes are based on inputs that cannot be readily derived from or corroborated by observable market data and are based on investments balances provided by fund managers and adjusted for contributions and distributions in the event such balances pertain to an interim date. The investment return for the period in question is benchmarked against investment vehicles which management determines reasonably approximates the composition/nature of selected Level 3 investment.

- (c) Represents OCF and OCH's 25% interest in Southeast Louisiana Homecare LLC, a joint venture with a third party formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended December 31, 2010 and 2009 is as follows (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
Total Realized/Unrealized Gains (Losses) included in:					
Balance, December 31, 2009	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
\$ 20,584	\$ 188	\$ 1,814	\$ 2,266	\$ (57)	\$ 24,795

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
Total Realized/Unrealized Gains (Losses) included in:					
Balance, December 31, 2008	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2009
\$ 24,627	\$ 6,346	\$ (3,646)	\$ (3,863)	\$ (2,880)	\$ 20,584

The FASB issued a standards update pertaining to Fair Value Measurements and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share in September 2009. Fair values are determined by the use of calculated net asset value per ownership share. In complying with the update, the following disclosures regarding OHS' investments at December 31, 2010 that feature net asset value per share in Level 2 and Level 3:

	Fair Value (In thousands)	Unfunded Commitments	Redemption frequency if currently eligible	Redemption Notice Period
Emerging Market - City of London (f)	\$21,554,206	\$ -	Monthly	30 days By the 22nd business day prior to redemption
Natural Resources (g)	14,391,511		Monthly	90 days
Hedge Fund (h)	11,985,139		Quarterly	5 business days prior to redemption
Small Cap Growth (i)	4,741,120		15th and end of the month	
Total	\$52,671,976	\$ -		

- (f) This is a commingled fund invested in equities
- (g) This category includes an investment in a common trust fund comprised of approximately 55% equity, 25% commodity and 20% fixed income.
- (h) This category includes investments in commingled hedge funds which invest in multi-strategy arbitrage, opportunities, distressed investment and long/short strategies.
- (i) This is a commingled fund invested in small-cap growth equities.

17. SUBSEQUENT EVENTS

OHS completed its subsequent events review through March 31, 2011, the date on which the financial statements were available to be issued.

* * * * *

Ochsner Clinic Foundation

Schedule of Expenditures of Federal Awards
for the Year Ended December 31, 2010, and
Independent Auditors' Reports

OCHSNER CLINIC FOUNDATION

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To the Ochsner Clinic Foundation
New Orleans, Louisiana

We have audited the consolidated financial statements of Ochsner Clinic Foundation (the "Foundation") as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit and Oversight Committee of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

March 31, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Ochsner Clinic Foundation
New Orleans, Louisiana

Compliance

We have audited the compliance of Ochsner Clinic Foundation (the "Foundation") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133 Audits of States, Local Governments, and Non-profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance to be *material weaknesses*, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of the Foundation as of and for the year ended December 31, 2010, and have issued our report thereon dated March 31, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the members of the Audit and Oversight Committee of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 10, 2011

OCHSNER CLINIC FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010

Description	CFDA/Contract Number	Federal Expenditures
Research and Development Cluster:		
Department of Health and Human Services:		
National Institute of Health	various	\$ 1,357,928
Health Resources and Services Administration	various	249,259
Passed through other entities	various	<u>353,064</u>
Total Research and Development Cluster		1,960,251
Department of Homeland Security — Public Assistance		
Grants — passed through the State of Louisiana Governor's		
Office of Homeland Security and Emergency Preparedness	97.036	<u>1,068,010</u>
TOTAL		<u>\$ 3,028,261</u>

See notes to Schedule of Expenditures of Federal Awards.

OCHSNER CLINIC FOUNDATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2010

1. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Ochsner Clinic Foundation (the "Foundation") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal direct programs are presented by federal department and by individual federal awards.

Contract or Catalog of Federal Domestic Assistance (CFDA) numbers are presented for all individual awards scheduled.

2. DEPARTMENT OF HEALTH AND HUMAN SERVICES — NATIONAL INSTITUTE OF HEALTH

Individual amounts included in research and development for the Department of Health and Human Services — National Institute of Health are as follows:

Description	CFDA Number	Federal Expenditures
Lymphomagenesis	93.395	\$ 228,959
Ochsner Community Clinical Oncology Program	93.399	390,594
Cohort Study of Medication Adherence Among Older Adults	93.866	358,413
Effect of Intracellular Angiotensin II	93.837	223,531
Nicotine & Neuroprotection in Parkinson's Disease	93.853	55,220
p66/Insulin Like Growth Factor-1 Reno-Protection in Diabetes - ARRA	93.701	56,225
p66/Insulin Like Growth Factor-1 Reno-Protection in Diabetes	93.847	43,747
Emergency Medical Services	93.241	836
Stromal Cell Molecules Required for Lymphoma Generation	93.396	<u>403</u>
Total		<u>\$1,357,928</u>

3. DEPARTMENT OF HEALTH AND HUMAN SERVICES — HEALTH RESOURCES AND SERVICES ADMINISTRATION

Individual amounts included in research and development for the Department of Health and Human Services — Health Resources and Services Administration are as follows:

Description	CFDA Number	Federal Expenditures
Health Care and Other Facilities	93.887	\$ 194,832
Telestroke Network	93.283	52,402
Small Rural Hospital Improvement Grant Program	93.301	<u>2,025</u>
Total		<u>\$ 249,259</u>

4. DEPARTMENT OF HEALTH AND HUMAN SERVICES — PASSED THROUGH OTHER ENTITIES

Individual amounts included in the amount passed through other entities for research and development from the Department of Health and Human Services are as follows:

Description	CFDA Number	Federal Expenditures
Passed through Louisiana State University — Mentoring in CV Biology	93.389	\$ 102,235
Passed through Louisiana Hospital Association -- Health and Human Services Hospital Preparedness Grant	93.889	94,309
Passed through Mayo Clinic Rochester and Feinstein Institute for Medical Research --- Renal Injury and Adaptation to Heme Proteins	93.847	40,810
Passed through Louisiana State University — Antitumor Effects of T1.F5 Ligand-producing T Cells — ARRA	93.701	34,344
Passed through Louisiana State University Health Sciences Center — Interaction of EBV and HPV in the Development of Cervical Dysplasia in HIV+ Women — ARRA	93.701	32,879
Passed through American College of Radiology Imaging Network — American College of Radiology Imaging Network Study	93.394	19,913
Passed through Eastern Cooperative Oncology Group, Frontier Science & Technology Research Foundation, Comprehensive Cancer Center of Wake Forest University and American College of Radiology -- Community Clinical Oncology Program Research	93.399	23,771
Passed through Columbia Presbyterian Medical Center, Duke University, Tulane University Health Sciences Center, National Heart, Lung & Blood Institute — Heart and Vascular Diseases Research	93.837	24,494
Passed through Mayo Foundation, ACOSOG for Medical Education and Research and University of Mississippi Medical Center — Gynecologic Oncology Group	93.395	(54,616)
Passed through University of Medicine and Dentistry of New Jersey — Carotid Revascularization Endarterectomy (Crest) Trial	93.854	10,354
Passed through John Wayne Cancer Institute — A Phase III, Randomized Trial of Surgical Resection With or Without BCG Versus Best Medical Therapy as Initial Treatment in Stage IV Melanoma — ARRA	93.701	3,390
Passed through Louisiana State University — Clinical Research Network for the Treatment of Acute Lung Injury (ALI) and the Acute Respiratory Distress Syndrome (ARDS)	93.838	6,617
Passed through Cornell University and University of Rochester — Alias Phase III Albumin in Acute Ischemic	93.853	14,564
Total		<u>\$ 353,064</u>

5. SUBRECIPIENT AWARDS

Of the federal expenditures presented in the schedule, Ochsner Clinic Foundation provided federal awards to subrecipients as follows:

Program Title	Contract/ CFDA Number	Amount Provided to Subrecipients
Cohort Study of Medication Adherence Among Older Adults	93.866	<u>\$72,377</u>
Total		<u>\$72,377</u>

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OCHSNER CLINIC FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2010

PART I — SUMMARY OF AUDITORS' RESULTS

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. The statement that significant deficiencies in internal control over financial reporting were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. The statement that significant deficiencies in internal control over compliance with requirements applicable to major federal award programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Foundation's major programs were:

Name of Federal Program or Cluster	CFDA Number
Research and Development Cluster:	
Department of Health and Human Services:	
National Institute of Health	various
Health Resources and Services Administration	various
Passed through other entities	various
Department of Homeland Security - Public Assistance	
Grants - passed through the State of Louisiana Governor's	
Office of Homeland Security and Emergency Preparedness	97.036

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The Foundation did qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

PART II — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.

OCHSNER CLINIC FOUNDATION

SUMMARY OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2010

None.

Ochsner Clinic Foundation and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended December 31, 2010 and 2009, and
Independent Auditors' Report

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Clinic Foundation:

We have audited the accompanying consolidated balance sheets of Ochsner Clinic Foundation (OCF) and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of OCF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OCF as of December 31, 2010 and 2009, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011, on our consideration of OCF's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

March 31, 2011

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 83,418	\$ 43,509
Assets limited as to use required for current liabilities	3,662	2,105
Patient accounts receivable — net	171,709	170,313
Accounts receivable other	16,220	17,983
Pledges receivable — net	6,174	3,230
Inventories	31,391	27,391
Prepaid expenses and other current assets	15,038	8,040
Estimated third-party payor settlements — net	<u>3,680</u>	<u>17,373</u>
Total current assets	<u>331,292</u>	<u>289,944</u>
ASSETS LIMITED AS TO USE:		
By board for capital improvements, charity, research, and other	319,779	255,645
Under bond indenture agreements	21,280	31,944
Under self-insurance trust fund	7,490	9,074
Donor-restricted long-term investments	<u>45,391</u>	<u>42,282</u>
Total assets limited as to use	393,940	338,945
Less assets limited as to use required for current liabilities	<u>(3,662)</u>	<u>(2,105)</u>
Noncurrent assets limited as to use	390,278	336,840
INVESTMENTS IN UNCONSOLIDATED AFFILIATES, REAL ESTATE, AND OTHER	7,259	7,315
PROPERTY — Net	428,579	382,833
GOODWILL — Net	43,097	42,693
INTANGIBLE ASSETS — Net	11,556	11,509
DUE FROM RELATED PARTIES	89,885	62,658
NOTES RECEIVABLE — Related party	25,401	38,473
OTHER ASSETS	<u>10,523</u>	<u>6,513</u>
TOTAL	<u><u>\$1,337,870</u></u>	<u><u>\$1,178,778</u></u>

See notes to consolidated financial statements.

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 58,994	\$ 38,099
Deferred revenue	2,759	1,643
Accrued interest	2,491	2,499
Accrued salaries and wages	39,527	29,125
Accrued compensation for absences	26,770	23,712
Notes payable	52,969	32,969
Other	33,528	40,978
Pension and postretirement obligations — current portion	5,430	8,475
Bonds payable — current portion	4,335	1,320
Long-term debt — current portion	<u>1,860</u>	<u> </u>
Total current liabilities	228,663	178,820
OTHER LONG-TERM LIABILITIES	10,647	11,373
PENSION AND POSTRETIREMENT OBLIGATIONS	72,264	61,660
BONDS PAYABLE	364,893	369,001
LONG-TERM DEBT	<u>28,602</u>	<u>7,908</u>
Total liabilities	<u>705,069</u>	<u>628,762</u>
COMMITMENTS AND CONTINGENCIES (Notes 5 and 15)		
NET ASSETS:		
Unrestricted	578,585	502,570
Temporarily restricted	31,851	25,423
Permanently restricted	<u>22,365</u>	<u>22,023</u>
Total net assets	632,801	550,016
TOTAL	<u>\$1,337,870</u>	<u>\$1,178,778</u>

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED REVENUES:		
Net patient service revenue	\$ 1,592,161	\$ 1,445,756
Other operating revenue	69,850	61,384
Net assets released from restrictions used for operations	<u>3,413</u>	<u>3,048</u>
Total unrestricted revenues	<u>1,665,424</u>	<u>1,510,188</u>
EXPENSES:		
Salaries and wages	691,246	624,437
Benefits	103,836	98,432
Depreciation and amortization	49,504	52,576
Interest	21,588	20,152
Medical services to outside providers	131,099	118,312
Medical supplies and services	231,126	212,082
Provision for bad debts	109,853	108,897
Other operating expenses	<u>270,420</u>	<u>234,812</u>
Total expenses	<u>1,608,672</u>	<u>1,469,700</u>
OPERATING INCOME	56,752	40,488
NONOPERATING GAINS AND LOSSES — Investment and other gains -- net	<u>14,167</u>	<u>12,128</u>
EXCESS OF REVENUES OVER EXPENSES	70,919	52,616
CHANGE IN NET UNREALIZED GAINS	15,176	34,898
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	<u>3,542</u>	<u>4,911</u>
INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS, OTHER, AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	89,637	92,425
PENSION RELATED CHANGES OTHER THAN NET PERIODIC PENSION COSTS	(13,502)	51,961
OTHER	(120)	
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE — Reclassification of net assets		<u>42</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 76,015</u>	<u>\$ 144,428</u>

See notes to consolidated financial statements.

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	\$ 70,919	\$ 52,726
Change in net unrealized gains	15,176	34,788
Net assets released from restrictions used for capital acquisitions	3,542	4,911
Pension related changes other than net periodic pension costs	(13,502)	51,961
Other	(120)	
Cumulative effect of change in accounting principle — Reclassification of net assets		42
Increase in unrestricted net assets	<u>76,015</u>	<u>144,428</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	10,211	4,676
Investment income — net of payments to beneficiaries	3,172	4,709
Other		(1)
Net assets released from restrictions:		
Operations	(3,413)	(3,053)
Capital acquisitions	(3,542)	(4,911)
Cumulative effect of change in accounting principle — Reclassification of net assets		(42)
Increase in temporarily restricted net assets	<u>6,428</u>	<u>1,378</u>
PERMANENTLY RESTRICTED NET ASSETS — Contributions	<u>342</u>	<u>1,368</u>
Increase in permanently restricted net assets	<u>342</u>	<u>1,368</u>
INCREASE IN NET ASSETS	82,785	147,174
NET ASSETS — Beginning of year	<u>550,016</u>	<u>402,842</u>
NET ASSETS — End of year	<u>\$632,801</u>	<u>\$550,016</u>

See notes to consolidated financial statements.

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 82,785	\$ 147,174
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Pension related changes other than net periodic pension costs	13,502	(51,961)
Depreciation and amortization	49,504	52,576
Provision for bad debts	109,853	108,897
Contributions restricted for long-term investments	(342)	(1,368)
Net realized and unrealized gains on investments	(18,908)	(40,547)
Gain on Ochsner Medical Center — Northshore, LLC	(3,327)	
Loss (gain) on disposal of fixed assets	111	(27)
Gain on sale of Ochsner Home Health Corporation and St. Anne Home Health (Note 1)		(9,645)
Changes in operating assets and liabilities:		
Accounts receivable	(115,916)	(97,946)
Other current assets	(22,256)	(37,625)
Other assets	720	(311)
Accounts payable	22,595	(5,487)
Accrued interest and other liabilities	(991)	21,049
Net cash provided by operating activities	<u>117,330</u>	<u>81,779</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of assets whose use is limited and other investments	(76,360)	(22,504)
Sales and maturities of assets whose use is limited and other investments	40,329	5,717
Capital expenditures	(60,060)	(31,623)
Acquisition of Ochsner Medical Center — Northshore, LLC (Note 2)	(10,886)	
Acquisition of Ochsner DME, LLC (Note 2)	(730)	
Proceeds received from the sale of property and equipment	626	205
Sale of accounts receivable		(26,250)
Proceeds received from the sale of Ochsner Home Health Corporation and St. Anne Home Health (Note 1)		7,402
Net cash used in by investing activities	<u>(107,081)</u>	<u>(67,053)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of bonds payable and long-term debt	(3,754)	(6,782)
Net draws on notes payable	20,000	
Draws of notes receivable from Ochsner Community Hospitals — net	13,072	11,623
Proceeds from contributions restricted for long-term investments	342	1,368
Net cash provided by financing activities	<u>29,660</u>	<u>6,209</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,909	23,935
CASH AND CASH EQUIVALENTS — Beginning of year	43,509	19,574
CASH AND CASH EQUIVALENTS — End of year	\$ 83,418	\$ 43,509
SUPPLEMENTAL DISCLOSURE — Cash paid for interest (net of amounts capitalized)	\$ 20,574	\$ 20,456
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES:		
Property purchases included in accounts payable	\$ 3,477	\$ 1,777

The purchase of Ochsner Medical Center — Northshore LLC in April 2010 was funded partially by \$23,640,000 in external financing.

In 2010, OCF transferred equipment to OHS and OCF recorded a correspondening non cash increase in due from related parties of \$283,000 (Note 5).

In 2009, OCF financed equipment purchases of \$3,917,000 (Note 10).

See notes to consolidated financial statements

OCHSNER CLINIC FOUNDATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ochsner Clinic Foundation (formerly Alton Ochsner Medical Foundation or Foundation). Located in New Orleans, Louisiana, is a not-for-profit institution reporting its activities in the following net asset categories:

Unrestricted:

- Foundation Activities
- Ochsner Foundation Hospital ("Hospital")
- Ochsner Foundation Hospital – Westbank Campus
- Research
- Education
- Elmwood Fitness Center
- Brent House Corporation
- Ochsner Home Health Corporation (dissolved December 2009)
- Ochsner Clinic LLC ("Clinic")
- Gulf Coast Physician Network LLC (GCPN)
- Ochsner Bayou LLC
- East Baton Rouge Medical Center LLC ("Ochsner Medical Center – Baton Rouge")
- Ochsner DME LLC (formed December 2009)
- Ochsner System Protection Company (formed December 2009)
- Ochsner Medical Center – Northshore LLC (formed April 2010)

Temporarily restricted:

- Foundation Activities
- Research
- Education

Permanently restricted:

- Foundation Activities
- Research
- Education

During 2006, Ochsner Health System (OHS), a not-for-profit, non stock membership corporation was formed as the parent company of Ochsner Clinic Foundation (OCF or "Ochsner"). OCF amended its articles of incorporation and by-laws to provide that OHS is its sole member of OCF with the authority to appoint the community directors of OCF, constituting a majority of its OCF board of directors. Ochsner Health System is also the sole member of Ochsner Community Hospitals (OCH), a not-for-profit entity formed in 2006, whose consolidated financial statements include the accounts of Ochsner Medical Center – Kenner LLC, Ochsner Medical Center – Westbank LLC, and Ochsner Baptist Medical Center LLC.

The consolidated financial statements of Ochsner Clinic Foundation include the accounts of the Ochsner Foundation Hospital – Main Campus, Ochsner Foundation Hospital – Westbank Campus, the Clinic, and the Foundation's wholly owned not-for-profit subsidiaries, Gulf Coast Physician Network LLC, Brent House Corporation, Ochsner DME LLC, Ochsner Bayou LLC, East Baton Rouge Medical Center LLC

(dba Ochsner Medical Center – Baton Rouge), Ochsner System Protection Company, and Ochsner Medical Center – Northshore LLC.

On August 31, 2001, the Foundation and the Clinic effected a merger transaction resulting in the net assets of Ochsner Clinic LLC being acquired by Alton Ochsner Medical Foundation. Ochsner Clinic LLC is a multi-specialty group physician practice operating out of three primary locations and several satellite clinics in the New Orleans and Baton Rouge areas. In connection therewith, the name of Alton Ochsner Medical Foundation was changed to Ochsner Clinic Foundation (OCF), and the Clinic became a wholly owned subsidiary of OCF. As part of the merger transaction, the Foundation purchased the membership interests of the former members of the Clinic and the Foundation became the sole member of the Clinic.

The Hospital's medical and teaching staffs consist of physicians associated with the Clinic, a group practice of over 850 physicians. OCF also engages in a wide range of medical research, which is conducted by the Clinic's physicians. The Foundation established the Brent House Corporation to acquire and operate the Brent House Hotel for the general benefit of the patients of the Ochsner Health System.

In 2009, OCF formed Southeast Louisiana Homecare LLC (SLH), a joint venture with a third party. Coincident therewith, OCF sold 100% of the assets of Ochsner Home Health Corporation and St. Anne Home Health, including related licenses, to SLH and received consideration of \$7,402,000 in cash and a 25% membership interest in SLH. SLH operates as a home health agency and is being accounted for on the equity method of accounting by OCF subsequent to the sale. Also in 2009, Ochsner DME LLC and Ochsner System Protection Company LLC were established. Ochsner DME LLC was formed for the purpose of selling and leasing durable medical equipment and Ochsner System Protection Company LLC operates as a wholly-owned captive insurance company domiciled in the state of Louisiana.

In 2010, OCF purchased Northshore Regional Medical Center from Tenet Healthcare Corporation and Healthcare Property Partners. The facility operates as Ochsner Medical Center – Northshore (see Note 2).

Basis of Presentation and Principles of Consolidation — The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OCF's financial statements are pension assumptions, allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Charity Care — OCF provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because OCF does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone for charity care, based on established rates, were approximately \$2,149,000 and \$1,962,000 during the years ended December 31, 2010 and 2009, respectively.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or under bond indenture agreements.

Inventories — Inventories are stated at the lower of first-in, first-out cost or market.

Pledges Receivable — Unconditional promises to give are recognized as revenues at their fair values in the period received. Pledges receivable are recorded net of necessary discounts and allowances.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investments also include investments in private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These investments are termed alternative investments in the notes to the financial statements and those without readily marketable fair values are accounted for under the equity method, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses in unrestricted net assets (performance indicator) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses. If management believes a decline in the value of a particular investment is temporary, the decline is included in unrealized losses on the consolidated statements of operations. If the decline is evaluated as being "other than temporary," the carrying value of the investment is written down and a realized loss is recorded in the consolidated statements of operations. OCF recorded impairment charges on investment securities of approximately \$813,000 and \$3,841,000 for the years ended December 31, 2010 and 2009, respectively.

Assets Limited as to Use — Assets limited as to use primarily include assets held by trustees under indenture agreements, investments restricted by donors, and designated assets set aside by the Board of Trustees primarily for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Foundation have been classified in the consolidated balance sheets as current assets.

Property — Net — Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets, as follows:

	Years
Land improvements	5–25
Buildings	10–40
Leasehold improvements	12–20
Equipment, furniture, and fixtures	2–20

Impairment of Long-Lived Assets — OCF periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Capitalization of Interest — OCF capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OCF's average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. Capitalized interest costs totaled \$278,000 and \$570,000 for the years ended December 31, 2010 and 2009, respectively.

Goodwill and Intangible Assets — Goodwill and intangible assets, consisting primarily of trade name and employment contracts, were recorded as a result of the Foundation's merger with the Clinic in 2001. Goodwill and intangible assets were amortized on a straight-line basis over periods generally ranging from 2 to 20 years as required under Accounting Principles Board (APB) Opinion No. 17, *Intangible Assets*, through December 31, 2009. Effective fiscal 2010, goodwill and intangible assets with indefinite useful lives are no longer amortized in accordance with ASC 350, *Intangibles - Goodwill and Other* (see "New Accounting Pronouncements" section).

Deferred Revenue — OCF engages in research activities funded by contracts from U.S. government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred.

Deferred Financing Costs — In connection with the series 2007 bonds (see Note 9), financing costs approximating \$4,488,000 were capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximate \$373,000 and \$260,000 at December 31, 2010 and 2009, respectively.

Professional and General Liability Insurance — Professional and general liability claims have been asserted against OCF by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. Incidents occurring through December 31, 2010, may result in the assertion of additional claims. OCF participates in a risk management program to provide for professional and general liability coverage. Under this program, OCF carries professional and general liability insurance coverage for up to \$40 million each of annual aggregate claims subject to certain deductible provisions.

OCF, with the exception of Ochsner Medical Center – West Bank, Ochsner Medical Center – North Shore, and Ochsner Medical Center – Baton Rouge, is self-insured with respect to the first \$3,000,000 of each claim for professional liability with an aggregate exposure of \$6,000,000. General liability claims are subject to a retention of \$1,000,000 per claim and \$2,000,000 aggregate (up to an annual combined aggregate of \$8,000,000). For Ochsner Medical Center – West Bank and Ochsner Medical Center – Northshore LLC, the retention is reduced to \$100,000 for each individual general and professional liability claim.

As stated below, professional liability claims are limited by Louisiana statute to \$100,000 per occurrence. OCF has made contributions to a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements are made from the fund for self-insured professional and general liability claims, claims administration costs and legal fees. The trust fund assets total approximately \$7,490,000 and \$9,074,000 at December 31, 2010 and 2009, respectively. The estimated liability recorded by OCF for claims at December 31, 2010 and 2009, based on the actuarial report mentioned above and discounted at 3.5% and 4.5%, respectively, is approximately \$11,152,000 and \$11,179,000, respectively. Amounts accrued relate to funding for fiscal 2010 and, upon payment, will increase the fund to a balance which approximates the actuarial liability. If the risk management program is terminated, the trust fund balance, if any, reverts to OCF after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

Ochsner Medical Center – Baton Rouge has its own policy for professional liability claims, which does not include a retention. The estimated liability recorded by Ochsner Medical Center – Baton Rouge for claims at December 31, 2010, based on the actuarial report discounted at 4.0% is approximately \$531,000.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to \$500,000, the first \$100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund for participants in the fund. OCF participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OCF for participation in the Patient's Compensation Fund for the years ended December 31, 2010 and 2009, were approximately \$20,209,000 and \$17,823,000, respectively.

Estimated Workers' Compensation and Employee Health Claims – The provisions for estimated workers' compensation and employee health claims, totaling \$7,529,000 and \$7,897,000 at December 31, 2010 and 2009, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. These estimates incorporate OCF's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by OCF has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by OCF in perpetuity.

Consolidated Statement of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income and other gains – net, which is reported as nonoperating.

Excess of Revenues Over Expenses – The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, contributions of property and equipment, contributions used to acquire property and equipment, pension related changes other than net periodic pension costs, other, and cumulative effect of change in accounting principle.

Donor-Restricted Gifts — Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Fair Value of Financial Instruments — The following methods and assumptions were used by OCF in estimating the fair value of its financial instruments:

Current Assets and Liabilities — OCF considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Investments — The fair values of OCF's marketable equity and debt securities are based on quoted market prices in an active market. The carrying amounts reported in the consolidated balance sheets for OCF's other investments approximate fair value (see Note 17).

Bonds Payable — The fair values of OCF's revenue bonds are based on currently traded values of similar financial instruments as disclosed in Note 9.

Related Party Receivables — Because of the related party nature of the due from related parties and notes receivable – related party, a determination of the fair value is not considered meaningful.

Income Taxes — OCF and its subsidiaries qualify as tax exempt organizations under Section 501 (c)(3) and/or 509 (a)(3) of the Internal Revenue Code and are exempt from Federal and State income taxes.

Concentration of Credit Risk — OCF grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties — OCF's business could be impacted by continuing price pressure on new and renewal business, OCF's ability to effectively control health care costs, additional competitors entering OCF's markets, and Federal and State legislation in the area of health care reform. Changes in these areas could adversely impact OCF's operations in the future.

Reclassifications — We have recast certain amounts for prior periods to conform to our 2010 presentation. Long-term debt of \$7,908,000 was reclassified from other long-term liabilities to long-term debt.

New Accounting Pronouncements — In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, *Intangibles – Goodwill and Other*. ASU 2010-07 provides guidance on how a not-for-profit entity determines whether a combination is a merger or an acquisition, applies the carryover method in accounting for a merger, applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. ASU 2010-07 is effective prospectively for mergers that occur at or after the beginning of an initial reporting period that begins on or after December 15, 2009. In addition, ASU 2010-07 applied previously issued guidance regarding the periodic impairment evaluation for goodwill and the accounting for noncontrolling interests to not-for-profit entities for reporting periods beginning on or after December 15, 2009. OCF adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized, resulting in a decrease in amortization expense of \$4,640,000 in the statement of operations for fiscal year 2010. OCF will review goodwill and intangible assets for impairment at least annually. There was no impact to OCF's financial statements related to the adoption of the provisions related to the accounting for noncontrolling interests.

In August 2008, the FASB issued FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosure for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 was codified in June 2009 as ASC Topic 205-958-45, *Presentation – Not for Profit Entities* (ASC 205). ASC 205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA, which the state of Louisiana enacted on July 1, 2010. During 2010, OCF retroactively adopted the provisions of UPMIFA and ASC 205 as of January 1, 2009, and as a result, reclassified \$42,000 of temporarily restricted net assets as of December 31, 2009 to unrestricted net assets. These

reclassifications have been reported as a cumulative effect of change in accounting principle in the statement of operations for the year ended December 31, 2009. In addition to this reclassification of net assets, \$467,000 of net gains on investments that were reported previously as unrestricted gains on investments, net of distributions, have been reclassified to temporarily restricted income on investments in the statement of operations for the year ended December 31, 2009.

2. BUSINESS COMBINATION AND PURCHASE ACCOUNTING

Ochsner Medical Center – Northshore LLC — On April 1, 2010, OCF purchased Northshore Regional Medical Center in Slidell, Louisiana from Tenet Healthcare Corporation and Healthcare Property Partners. The facility will operate as Ochsner Medical Center – Northshore LLC.

Total purchase price for the facility was approximately \$32,800,000 in addition to net asset adjustments and closing costs of \$617,000. The acquisition was funded through cash on hand at the date of acquisition as well as through external financing. As part of the acquisition, OCF allocated the purchase price to the acquired assets and liabilities.

The financial statements of the facility acquired primarily consist of property, plant, and equipment and working capital items. The following is a summary of the funding sources for these transactions (in thousands):

Cash	\$ 10,886
External financing	<u>23,640</u>
Total sources of acquisition funding	<u>\$ 34,526</u>

The purchase price allocation has been prepared on a preliminary basis and changes may occur as additional information becomes available. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisitions (in thousands):

Inventory	\$ 1,648
Prepaid expenses and other current assets	114
Property, plant, and equipment	32,800
Other assets	<u>1,404</u>
Total assets acquired	35,966
Total liabilities assumed	<u>1,440</u>
Purchase price	<u>\$ 34,526</u>

Ochsner DME LLC— On December 27, 2010, OCF purchased Total Health Solutions, a healthcare products, supply and solutions business licensed to provide durable medical equipment from Healthcare Development Group, L.L.C. The entity will operate as Ochsner Durable Medical Equipment, L.L.C. (Ochsner DME LLC).

Total purchase price for the facility was approximately \$730,000 in addition to net asset adjustments. The acquisition was funded through cash on hand at the date of acquisition. As part of the acquisition, OCF allocated the purchase price to the acquired assets and liabilities.

The purchase price allocation has been prepared on a preliminary basis and changes may occur as additional information becomes available. The following is a summary of the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisitions (in thousands):

Inventory	\$ 231
Property, plant, and equipment	95
Goodwill	<u>404</u>
Total assets acquired	<u>730</u>
Purchase price	<u>\$ 730</u>

3. INVESTMENTS

A summary of the carrying value of OCF's investments at December 31, 2010 and 2009, follows (in thousands):

	2010	2009
Marketable equity securities	\$153,349	\$123,277
Fixed income investments	80,266	91,252
Money market funds	96,724	73,101
Alternative	58,229	42,050
Real estate	5,441	5,441
Investment in unconsolidated affiliates	2,892	2,949
Other	<u>4,298</u>	<u>8,190</u>
Total	<u>\$401,199</u>	<u>\$346,260</u>

Investment income and other gains and losses are classified as nonoperating and are comprised of interest and dividend income of \$9,477,000 and \$6,946,000, and realized net gains on sales of securities of \$4,690,000 and \$5,292,000 for the years ended December 31, 2010 and 2009, respectively.

Alternative Investments — Alternative investments include private equity funds, hedge funds, real estate funds, offshore fund vehicles, funds of funds and common/collective trust funds structured as limited liability corporations or partnerships or trusts. These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of off-balance-sheet risk, may result in loss due to changes in the market (market risk).

Investment Impairment — OCF recorded impairment charges on investment securities of approximately \$813,000 and \$3,841,000 for the years ended December 31, 2010 and 2009, respectively. The investment securities on which the impairment charge was recorded were primarily equity securities, which are carried at fair value with changes in unrealized gains and losses generally being recorded as adjustments below the performance indicator. The fair value of investments is based on quoted market prices. Upon management's review and evaluation of the individual investment securities, management deemed the market decline for certain investment securities to be "other-than-temporary", primarily due to OCF's lack of ability to hold the securities until recovery due to the use of an investment manager to execute investment transactions and decisions. The related adjustment to fair value for these investment securities was recognized in realized losses as a part of the performance indicator.

As of December 31, 2010 and 2009, there were no investments with a decline in fair value from cost as all amounts were considered other than temporary impairments and, as noted above, were recognized as realized losses as a part of the performance indicator.

4. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2010 and 2009, OCF's patient accounts receivable balances were due from the following sources (in thousands):

	2010	2009
Government agencies	\$ 71,227	\$ 65,988
Patients	61,854	76,478
Managed care/indemnity	<u>141,790</u>	<u>134,787</u>
Total	274,871	277,253
Less allowance for doubtful accounts	<u>(103,162)</u>	<u>(106,940)</u>
Patient accounts receivable — net	<u>\$ 171,709</u>	<u>\$ 170,313</u>

5. RELATED-PARTY TRANSACTIONS

Due from OHS and OCH — OCF pays fees to OHS for administrative support and oversight. Fees incurred totaled \$103,559,000 and \$91,180,000 for the years ended December 31, 2010 and 2009, respectively, and are included in salaries and wages, benefits, depreciation and amortization, medical supplies and services, and other operating expenses in the consolidated statement of operations and changes in net assets. OCF also advanced interest free funds for operations to OHS and OCH. Such amounts relate to payment for payroll, rent, and invoices made by OCF on behalf of OHS and OCH and are included in due from related parties in the accompanying balance sheets. OCF advanced \$8,130,000 and \$8,875,000 to OHS for the years ended December 31, 2010 and 2009, respectively. OCF advanced \$19,998,000 and \$17,222,000 to OCH for the years ended December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, amounts owed from OHS and OCH total \$39,503,000 and \$32,274,000 and \$50,382,000 and \$30,384,000 respectively, and are included in due from related parties in the accompanying balance sheets. In 2010, \$283,000 was included a reduction of due to related parties as amounts owed to OHS for equipment, furniture, and fixtures transferred to OHS.

Note receivable — OCF has a note receivable with OCH in the original principal amount of \$60 million which was primarily used to redeem the OCH Revenue Note Series 2006 bonds. Amounts advanced under the note receivable bear interest at the Prime Rate (3.25% at December 31, 2010 and 2009). Interest payments are due monthly and principal, accrued interest, and other charges are due and payable on demand. The note is secured by a Mortgage and Security Agreement Securing Future Advances granted by OCH. During 2010 and 2009, OCF recorded interest income totaling \$916,000 and \$1,516,000, respectively. The note receivable balance as of December 31, 2010 and 2009, is \$25,401,000 and \$38,473,000, respectively, and is recorded as notes receivable — related party in the accompanying consolidated balance sheets.

Financial support arrangement with OCH — Since commencing operations in 2006, OCH's operations and capital expenditures have been primarily funded (i) through the issuance of long-term notes payable and bonds payable of \$45,372,000 and \$77,025,000, respectively, at December 31, 2010, and \$45,719,000 and \$80,555,000, respectively, at December 31, 2009 to third parties guaranteed by OCF, and (ii) by cash advances and the issuance of notes payable due on demand of \$25,401,000 and \$38,473,000 respectively, at December 31, 2010 and 2009 from OCF (a related party under common ownership and control) (as noted above). OCH incurred a net operating loss of \$8,749,000 and \$8,601,000 for the years ended December 31, 2010 and 2009, respectively, and has liabilities that exceed assets by \$98,466,000 and \$90,237,000 at December 31, 2010 and 2009, respectively. OCF has committed to OCH to continue to provide or maintain financial support through the continuation of financing to enable OCH to meet and discharge its liabilities in the normal course of business for the next 12 months through January 1, 2012, as well as, committed not to demand repayment of the note payable due on demand during this time.

Insurance coverage — Beginning May 31, 2010, OCF and OCH participate in a captive insurance program with OSPC which provides for certain of its property coverages accessed via the reinsurance market. Premiums paid by OCF total \$2,528,000 for the year ended December 31, 2010 and eliminate upon consolidation.

6. PROPERTY — NET

OCF's investment in property at December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Land and improvements	\$ 68,823	\$ 56,287
Buildings	607,076	575,078
Leasehold improvements	42,404	38,274
Equipment, furniture, and fixtures	361,856	336,524
Construction in progress	<u>21,087</u>	<u>14,009</u>
Total property — at cost	1,101,246	1,020,172
Less accumulated depreciation	<u>(672,667)</u>	<u>(637,339)</u>
Property — net	<u>\$ 428,579</u>	<u>\$ 382,833</u>

Depreciation and amortization expense totaled approximately \$48,406,000 and \$47,922,000, respectively, for the years ended December 31, 2010 and 2009.

At December 31, 2010 and 2009, OCF has purchase commitments totaling approximately \$10,685,000 and \$7,182,000 respectively, toward additional capital expenditures.

7. GOODWILL AND INTANGIBLE ASSETS — NET

As stated in Note 1, on August 31, 2001, the Foundation and the Clinic effected a merger transaction resulting in the net assets of the Clinic being acquired by Alton Ochsner Medical Foundation.

The cost to acquire the Clinic was allocated to the assets acquired and liabilities assumed according to their estimated fair values. In addition, the carrying values of certain other assets and liabilities of the Clinic were changed to reflect management's estimate of fair value under purchase accounting.

Amounts recorded as goodwill and intangible assets as of December 31, 2010 and 2009, are (in thousands):

	2010	2009
Goodwill	\$ 73,592	\$ 73,188
Less accumulated amortization	<u>(30,495)</u>	<u>(30,495)</u>
Goodwill — net	<u>\$ 43,097</u>	<u>\$ 42,693</u>
Trade name	\$ 19,600	\$ 19,600
Other	<u>986</u>	<u>939</u>
Total	20,586	20,539
Less accumulated amortization	<u>(9,030)</u>	<u>(9,030)</u>
Intangible assets — net	<u>\$ 11,556</u>	<u>\$ 11,509</u>

Prior to January 1, 2010, OCF amortized goodwill and intangible assets on a straight line basis using 20 years as the useful lives. Amortization expense related to goodwill and intangibles totaled approximately \$3,660,000 and \$994,000, respectively, for the year ended December 31, 2009. In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-07, which codifies ASC 350, *Intangibles — Goodwill and Other*. OCF adopted ASU 2010-07 on January 1, 2010 and as a result, goodwill and trade name were no longer amortized.

In 2010, OCF recorded an additional \$404,000 of goodwill in connection with the acquisition of Ochsner DME LLC (see Note 2).

8. NOTES PAYABLE

OCF has a loan agreement with a bank which provides a credit line. The loan agreement was amended on September 29, 2009 to establish the interest rate on outstanding borrowings as the 30 day LIBOR index plus one hundred (100) basis points (1.00%) and set an expiration/renewal date of September 28, 2010. On March 31, 2010, the note was further amended to increase the amount available under the note from \$33,000,000 to \$53,000,000, modify the interest rate to 30 day LIBOR index plus one hundred fifty (150) basis points (1.50%), and set an expiration/renewal date of March 29, 2011. The line of credit was renewed through May 31, 2011. Borrowings under the arrangement are unsecured, however OCF must meet certain financial covenants. OCF was in compliance with these covenants at December 31, 2010 and 2009. At December 31, 2010 and 2009, OCF had borrowings outstanding under this arrangement of \$52,969,000 and \$32,969,000, respectively. At December 31, 2010 and 2009, the amount of line of credit reserved for three standby letters of credit with a utility provider amounted to \$31,500 for both years. The interest rate on outstanding borrowings is based on LIBOR and, consequently, fluctuates from month to month. The rate on outstanding indebtedness under this arrangement was 1.76% and 1.24% at December 31, 2010 and 2009, respectively. All amounts are classified as current at December 31, 2010 and 2009.

9. BONDS PAYABLE

At December 31, 2010 and 2009, bonds payable consist of the following tax-exempt revenue bonds issued by the Louisiana Public Facilities Authority (LPFA) on behalf of OCF for the purpose of refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects (in thousands):

	2010	2009
Series 2007-A issued September 2007, due serially 2009-2047, annual interest rates ranging from 5.00% to 5.50%	\$ 377,450	\$ 378,770
Less unamortized net bond discount	<u>(8,222)</u>	<u>(8,449)</u>
Total bonds	369,228	370,321
Less current portion	<u>(4,335)</u>	<u>(1,320)</u>
Noncurrent portion of bonds payable	<u>\$ 364,893</u>	<u>\$ 369,001</u>

The OCF Series 2007-A bonds were issued by the LPFA on behalf of OCF for the purpose of advance refunding the Series 2002A and 2002B bonds as well as providing funding for capital projects. The \$380,030,000 Revenue Bonds were issued at fixed rates through the LPFA at a discount of approximately \$9,000,000.

Also, under the terms of the bond indenture, OCF is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the financial statements. The bond indenture also places limits on the incurrence of additional borrowings and requires that OCF satisfy certain measures of financial performance as long as the bonds are outstanding. OCF is currently in compliance with these requirements.

The Series 2007 bonds are general obligations of OCF, and all present and future accounts receivable are pledged to repayment of the bonds.

At December 31, 2010, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31	
2011	\$ 4,335
2012	4,695
2013	4,785
2014	5,475
2015	5,880
Thereafter	<u>352,280</u>
	<u>\$377,450</u>

The estimated fair value of OCF's 2007-A Series bonds as of December 31, 2010 and 2009 is approximately \$329,736,000 and \$350,500,000 respectively.

10. LONG-TERM DEBT

A summary of long-term debt at December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Working capital note, due May 2016, including accrued interest	\$ 8,029	\$ 7,908
Equipment loan, due December 2011	1,566	
Equipment loan, due April 2015	7,795	
Loans on land and building, due April 2015	15,640	
Less unamortized discount	<u>(2,568)</u>	<u>—</u>
Total loans on land and building	<u>13,072</u>	<u>—</u>
Total long-term debt	30,462	7,908
Less current portion of long-term debt	<u>(1,860)</u>	<u>—</u>
Noncurrent portion of long-term debt	<u>\$ 28,602</u>	<u>\$ 7,908</u>

St. Anne — On May 1, 2006, OCF entered into lease and management services agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche"), who owns and operates St. Anne General Hospital and related facilities ("St. Anne") of Raceland, Louisiana. Under the agreements, OCF leases the St. Anne buildings and facilities, purchased working capital and certain equipment of St. Anne's and operates the hospital for a specified period of time (see further discussion at Note 15). As part of the agreement, OCF entered into an unsecured note payable with Lafourche for the purchase of its working capital and equipment. On December 31, 2010, OCF and Lafourche executed an amendment in which the principal and all accrued and unpaid interest of \$8,029,000 became the new principal amount of the note and the note was extended for five years to a maturity date of May 1, 2016. The interest rate on the working capital note, based on the 5-Year Yield Tax Exempt Insured Revenue Bond Rate published by Bloomberg, was 1.49% and 1.60% at December 31, 2010 and 2009, respectively. All

amounts are classified as non-current at December 31, 2010 and December 31, 2009 and are included in long-term debt on the consolidated balance sheets. Due to the variable nature of the interest rate, carrying value approximates fair value of this note.

Ochsner Medical Center – Northshore LLC — OCF's purchase of Northshore Regional Medical Center on April 1, 2010 was partially financed by an \$8,000,000 equipment loan and a \$15,640,000 loan on the land and buildings. The equipment loan has a term of 60 months with a balloon payment due on April 1, 2015. The loan on land and buildings is also due on April 1, 2015.

Equipment Loan — In November 2009, OCF entered into an agreement to finance equipment purchases in the amount of \$3,917,000. Equipment purchases were received by OCF in March 2010. Principal payments are due in semi-annual installments which commenced on December 31, 2009 and mature in December 2011.

At December 31, 2010, scheduled repayments of long-term debt are as follows (in thousands):

December 31

2011	\$ 1,860
2012	945
2013	945
2014	945
2015	4,666
Thereafter	<u>23,669</u>
	<u>\$ 33,030</u>

11. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan — Certain employees of OCF and its subsidiaries are covered under a defined benefit pension plan. The plan is noncontributory and provides benefits that are based on the participants' credited service and average compensation during the last five years of covered employment. As of December 31, 2006, benefit accruals ceased for all plan participants under age 40 and those over 40 who elected to freeze their retirement plan benefits. OCF made an additional change to the plan and as of December 31, 2009 benefit accruals cease for all plan participants under age 55 with less than 10 years of service (rounded to the nearest 6 months). Physician/executive participants are frozen as of December 31, 2009, regardless of age and service. Participants who are not frozen as of December 31, 2009 can accrue benefits until the earlier of age 65 or December 31, 2014. No new participants are allowed to enter the plan. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. OCF makes contributions to its qualified plan that satisfies the minimum funding requirements under Employee Retirement Income Security Act of 1974. These contributions are intended to provide not only for benefits attributed to services rendered to date but also those expected to be earned in the future.

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost (in thousands):

	2010	2009
Change in benefit obligation:		
Benefit obligation -- beginning of year	\$ 366,112	\$ 351,176
Service cost	1,550	7,550
Interest cost	22,088	21,599
Actuarial loss	23,960	4,179
Curtailments		(4,725)
Benefits paid	<u>(15,480)</u>	<u>(13,667)</u>
Benefit obligation -- end of year	<u>398,230</u>	<u>366,112</u>
Change in plan assets:		
Fair value of plan assets -- beginning of year	300,319	242,039
Actual return on plan assets	35,665	64,876
Employer contributions	8,053	7,071
Benefits paid	<u>(15,480)</u>	<u>(13,667)</u>
Fair value of plan assets -- end of year	<u>328,557</u>	<u>300,319</u>
Funded status	<u>\$ (69,673)</u>	<u>\$ (65,793)</u>
	2010	2009
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations -- current portion	\$ -	\$ -
Pension and postretirement obligations -- noncurrent portion	(69,673)	(65,792)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	\$ 95,954	\$ 82,545
Prior service credit	<u>(209)</u>	<u>(271)</u>
Total amounts recognized	<u>\$ 95,745</u>	<u>\$ 82,274</u>
Other changes in plan assets and benefit obligations recognized in accumulated unrestricted net assets:		
Net loss (gain)	\$ 14,942	\$ (43,958)
Recognized loss	(1,534)	(10,983)
Recognized prior service credit	<u>63</u>	<u>2,855</u>
Total amounts recognized	<u>\$ 13,471</u>	<u>\$ (52,086)</u>

Weighted-average assumptions used to determine projected benefit obligations at December 31, 2010 and 2009, were as follows:

	2010	2009
Weighted-average discount rate	5.70 %	6.15 %
Rate of compensation increase	Graded	Graded

Net periodic pension cost for the years ended December 31, 2010 and 2009, includes the following component (in thousands):

	2010	2009
Service cost	\$ 1,551	\$ 7,551
Interest cost	22,088	21,599
Expected return on plan assets	(26,647)	(21,465)
Amortization of net loss	1,533	10,983
Recognized prior service credit	(63)	(588)
Recognized gain due to curtailments		(2,267)
	<u> </u>	<u> </u>
Net periodic pension (benefit) cost	<u>\$ (1,538)</u>	<u>\$ 15,813</u>

Weighted average assumptions used to determine net periodic pension cost for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Weighted average discount rate	6.15 %	6.25 %
Expected return on plan assets	9.00	9.00
Rate of compensation increase	Graded	Graded

The defined benefit pension plan asset allocation as of the measurement date (December 31, 2010 and December 31, 2009) and the target asset allocation, presented as a percentage of total plan assets, were as follows:

	2010	2009	Target Allocation
Debt securities	34 %	33 %	25%-30%
Equity securities	41	42	37%-59%
Private equity/venture capital	2	1	0%-7%
Hedge funds	13	14	10%-15%
Natural Resources/REITs	10	9	3%-10%
Other	1	1	0%

Asset allocations and investment performance are formally reviewed at regularly scheduled meetings several times during the year by the Investment Committee of OCF. OCF utilizes an investment consultant and multiple managers for different asset classes. The Investment Committee takes into account liquidity needs of the plan to pay benefits in the short-term and the anticipated long-term obligations of the plan.

The primary financial objectives of the plan are to (1) provide a stream of relatively predictable, stable, and constant earnings in support of the plan's annual benefit obligations; and (2) preserve and enhance the real (inflation-adjusted) value of the assets of the plan. The long-term investment objectives of the plan are to (1) attain the average annual total return assumed in the plan's most recent actuarial assumptions (net of investment management fees) over rolling five-year periods; (2) outperform the plan's custom benchmark; and (3) outperform the median return of a pool of retirement funds to be identified in conjunction with OCF's investment consultant.

The asset allocation is designed to provide a diversified mix of asset classes including U.S. and foreign equity securities, fixed income securities, real estate investment trusts, natural resources, cash, and funds to hedge against deflation and inflation. Risk management practices include various criteria for each asset class including measurement against several benchmarks, achievement of a positive risk adjusted return, and investment guidelines for each class of assets which enumerate types of investment allowed in each category.

The OCF Retirement Plan Statement of Investment Policies and Objectives provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return. Historical return patterns and correlations, consensus return forecast and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to assure that the probability of meeting actuarial assumptions is reasonable. OCF Treasury staff oversees the day-to-day activities involving assets of the Plan and the implementation of any changes adopted by the Investment Committee.

OCF currently expects to make a contribution to the defined benefit pension plan of approximately \$5.0 million in 2011.

For 2010 and 2009, OCF's defined benefit plan had accumulated benefit obligations of approximately \$395,047,000 and \$362,500,000, respectively.

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,812,000 and \$1,464,000, respectively.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2010, are as follows (in thousands):

Years Ending December 31	
2011	\$ 19,186
2012	20,339
2013	21,444
2014	22,851
2015	23,978
2016-2020	<u>135,272</u>
	<u>\$ 243,070</u>

Defined Contribution Plans — All employees of OCF meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan (the "Plan"). Also, effective for the 2010 Plan year, OCF may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual Eligible Compensation. In addition, OCF may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2010 and 2009, OCF has accrued \$13,673,000 and \$6,294,000 for matching contributions to the plan for the 2010 and 2009 fiscal years, respectively. The 2009 contribution was remitted to the Trustee in April 2010 and the 2010 contribution will be remitted in April 2011.

Certain OCF employees are also covered under a 457(f) plan. The 457(f) plan was created to replace 100% of the benefit target for employees under age 65 as of December 31, 2009 whose benefits in the defined benefit pension plan were frozen. The participant pays taxes at vesting and payout occurs at the later of age 65 or retirement. Participants of the 457(f) plan also participate in the 401(k) contributions. The expense associated with this plan was \$3,433,000 the year ended December 31, 2010. OCF's consolidated balance sheet reflects a liability of \$3,433,000 for the 457(f) plan at December 31, 2010.

Other Postretirement Benefits — OCF also provides certain health care and life insurance benefits for retired employees. OCF funds these benefits on a pay-as-you-go basis.

The following table sets forth the plan's funded status and expense recognized by OCF as of and for the years ended December 31, 2010 and 2009, using the projected unit credit method (in thousands).

	2010	2009
Change in benefit obligation:		
Benefit obligation — beginning of year	\$ 2,518	\$ 2,216
Interest cost	147	141
Benefits paid	(210)	(195)
Actuarial gain	<u>225</u>	<u>356</u>
Benefit obligation — end of year	<u>\$ 2,680</u>	<u>\$ 2,518</u>
Change in plan assets:		
Fair value of plan assets — beginning of year	\$ -	\$ -
Actual gain on plan assets		
Employer contributions	210	195
Benefits paid	<u>(210)</u>	<u>(195)</u>
Fair value of plan assets — end of year	<u>\$ -</u>	<u>\$ -</u>
Funded status	<u><u>\$(2,680)</u></u>	<u><u>\$(2,518)</u></u>
Amounts recognized in the consolidated balance sheets consist of:		
Pension and postretirement obligations — current portion	\$ (241)	\$ (212)
Pension and postretirement obligations — noncurrent portion	(2,439)	(2,306)
Accumulated unrestricted net assets	N/A	N/A
Amounts recognized in accumulated unrestricted net assets:		
Net actuarial loss	978	809
Prior service credit	(143)	(164)

Components of net periodic cost at December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Service cost	\$ -	\$ -
Interest cost	146	141
Recognized prior service cost	(20)	(20)
Recognized actuarial loss	<u>57</u>	<u>38</u>
Net periodic cost	<u>\$183</u>	<u>\$159</u>
	2010	2009
Weighted average assumptions - December 31:		
Discount rate on benefit obligation	5.70 %	6.15 %
Discount rate on net periodic cost	6.15	6.25

The estimated net gain/loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated unrestricted net assets into net periodic benefit cost over the next fiscal year is \$76,000 and \$20,000, respectively.

OCF currently expects to make a contribution to the other postretirement benefit plan of approximately \$248,000 in 2011.

Future benefit payments expected to be paid in each of the next five fiscal years and in the aggregate for the following five years as of December 31, 2010, are as follows (in thousands):

Years Ending December 31	
2011	\$ 248
2012	252
2013	255
2014	249
2015	240
2016-2020	<u>1,110</u>
	<u>\$2,354</u>

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2010. The rate was assumed to decrease gradually to 5.5% by 2012 and remain at that level thereafter (in thousands).

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost	<u>\$ 7</u>	<u>\$ (6)</u>
Effect on postretirement benefit obligation	<u>\$ 124</u>	<u>\$ (109)</u>

Executive Benefit Plan — Certain former Alton Ochsner Medical Foundation executives participate in an Executive Benefit Plan. The expense associated with this plan was \$78,000 and \$136,000, respectively, for the years ended December 31, 2010 and 2009. OCF's consolidated balance sheets reflect a liability of \$1,272,000 and \$1,278,000 for this plan at December 31, 2010 and 2009, respectively.

12. ENDOWMENT FUNDS AND TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

OHS has 579 temporarily restricted funds and 57 permanently restricted funds established for a variety of purposes. These funds are classified and reported based on the existence or absence of donor-imposed restrictions. Restricted net assets include funds dedicated to Medical Education, Nursing Education, Pastoral Care, Biomedical Research, Cancer Research, Cardiology Research, Transplant Research and Alzheimer's Research.

The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted on July 1, 2010, requires OCF to classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure. During 2010, OCF retroactively adopted UPMIFA as of January 1, 2009.

UPMIFA also requires that OCF preserve the historic dollar value of the donor restricted endowed funds. Therefore, permanently restricted net assets contain the aggregate fair market value of (1) an endowment fund at the time it became an endowment fund, (2) each subsequent donation to the fund at the time it is made, and (3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund.

Restricted Net Assets as of December 31, 2010 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	\$ 6,994	\$ 16,474	\$ 23,468
Education	3,845	2,627	6,472
Other	<u>21,012</u>	<u>3,264</u>	<u>24,276</u>
Total	<u>\$ 31,851</u>	<u>\$ 22,365</u>	<u>\$ 54,216</u>

Restricted Net Assets as of December 31, 2009 by Purpose

	Temporarily Restricted	Permanently Restricted	Total
Research	\$ 6,265	\$ 16,419	\$ 22,684
Education	3,499	2,528	6,027
Other	<u>15,659</u>	<u>3,076</u>	<u>18,735</u>
Total	<u>\$ 25,423</u>	<u>\$ 22,023</u>	<u>\$ 47,446</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ 4,066	\$ 22,365	\$ 26,431
Board-designated funds	<u>\$ 2,571</u>	<u> </u>	<u> </u>	<u>2,571</u>
Total	<u>\$ 2,571</u>	<u>\$ 4,066</u>	<u>\$ 22,365</u>	<u>\$ 29,002</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ 2,777	\$ 22,023	\$ 24,800
Board-designated funds	<u>\$ 2,745</u>	<u> </u>	<u> </u>	<u>2,745</u>
Total	<u>\$ 2,745</u>	<u>\$ 2,777</u>	<u>\$ 22,023</u>	<u>\$ 27,545</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ 2,745	\$ 2,777	\$ 22,023	\$ 24,800
Investment (loss) income	(47)	2,687		2,687
Contributions			342	342
Appropriations for expenditures	<u>(127)</u>	<u>(1,398)</u>	<u> </u>	<u>(1,398)</u>
Ending balance	<u>\$ 2,571</u>	<u>\$ 4,066</u>	<u>\$ 22,365</u>	<u>\$ 26,431</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	\$ 2,009	\$ 718	\$ 20,655	\$ 21,373
Net asset reclassification for change in accounting principle	<u>42</u>	<u>(42)</u>	<u> </u>	<u> </u>
Beginning balance, as restated	2,051	676	20,655	21,373
Investment income	764	2,959		2,959
Contributions			1,368	1,368
Appropriations for expenditures	(70)	(858)		(858)
Other	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance	<u>\$ 2,745</u>	<u>\$ 2,777</u>	<u>\$ 22,023</u>	<u>\$ 24,842</u>

Funds with Deficiencies — From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or current law requires OCF to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. Such deficiencies totaled \$0 and \$226,000 as of December 31, 2010 and 2009, respectively. Any such deficiencies resulted from unfavorable market fluctuations.

Return Objectives and Risk Parameters — OCF has investment and spending practices for endowment assets that intend to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that OCF must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The policy allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield results of the allocation index while assuming a moderate level of investment risk. OCF expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment purpose.

Strategies Employed for Achieving Objectives — To satisfy its long-term rate-of-return objectives, OCF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. OCF uses a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

Spending Policy and How the Investment Objectives Relate to Spending Policy — It is OCF's objective to establish a payout rate from endowment accounts that provides a stable, predictable level of spending for the endowed purposes that will increase with the rate of inflation, and to continue to invest in accordance with policy goals of providing for a rate of growth in the endowment earnings that meets or exceeds the rate of inflation. The annual spending appropriation will be subject to a minimum rate of 4% and a maximum rate of 7% of each endowment funds' current market value. Temporarily restricted net assets, along with other donor restricted funds, include the spending appropriation and investment income of the endowments and are pending appropriation for expenditure consistent with the specific purpose of the fund.

13. NET PATIENT SERVICE REVENUE

Net patient service revenue is recognized when services are provided. OCF has agreements with third-party payors that provide for payments to OCF at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

A summary of the significant payment arrangements with major third-party payors follows:

Medicare and Medicaid — Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare inpatient rehabilitation services are also paid at prospectively determined rates per discharge, based on a patient classification system. Psychiatric services rendered to Medicare beneficiaries are reimbursed on a prospectively determined rate per day. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per diem based on a patient classification system. The Medicare program's share of indirect medical education costs is reimbursed based on a stipulated formula. The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits.

OCF records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary. The difference between estimated and audited settlements is recorded as an adjustment to net patient service revenue in the year a determination is made. The favorable resolution of Medicare reimbursement issues under appeal by OCF is reported as an increase in net patient service revenue in the year the issue is resolved. The Medicare cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center – Baton Rouge have been settled by the fiscal intermediary through December 31, 2003, December 31, 2008, and September 30, 2006, respectively. The Medicaid cost reports of the Hospital, Ochsner Bayou LLC, and Ochsner Medical Center – Baton Rouge have been settled by the fiscal intermediary through December 31, 2002, December 31, 2007, and September 30, 2005, respectively.

Home health services rendered to Medicare beneficiaries are reimbursed under the Medicare Home Health Prospective Payment System.

Estimated amounts due to OCF for Medicare and Medicaid services are included in receivables at year end. Net revenue from government health care programs included in net patient service revenue in 2010 and 2009, approximated \$411,021,000 and \$366,985,000, respectively.

As a result of retroactive settlements of certain prior year cost reports, OCF recorded changes in estimates during the year ended December 31, 2010 and 2009. Operating revenues increased by approximately \$7,071,000 and \$7,029,000, respectively, in 2010 and 2009, as a result of these changes.

Upper Payment Limit Program — During December 2010, Ochsner and four other health care providers formed collaborations with the State and a unit of local government in Louisiana, Jefferson Parish Hospital Service District No. 1, to more fully fund the Medicaid program (the "Program") and ensure the availability of quality healthcare services for the low income and needy population. Ochsner and these four other health care providers formed two non-profit organizations, Louisiana Clinical Services, Inc. (LCS) and Southern Louisiana Clinical Services, Inc. (SLCS), the purpose of which is to create a vehicle to provide charity care services in the providers' communities. The provision of this care directly to low income and needy patients will result in the alleviation of the expense of public funds the governmental entities previously expended on care, thereby allowing the governmental entities to increase support for the state Medicaid program up to federal Medicaid Upper Payment Limits (UPL). Each State's UPL methodology must comply with its State plan and be approved by the Centers for Medicare & Medicaid Services (CMS). Federal matching funds are not available for Medicaid payments that exceed UPLs. Under the agreement between the collaborative members, the Program became

effective on December 1, 2010, and the first year of the Program runs from December 1, 2010 to November 30, 2011. Ochsner received \$8 million from the State of Louisiana on December 31, 2010 for the first year of the Program. Because the program was not fully operational until fiscal 2011, Ochsner has recorded this amount as deferred revenue in the accompanying consolidated balance sheet.

Humana Inc. — OCF entered into a provider contract with Humana Inc. to provide services for its commercial and senior members. The commercial members are reimbursed on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. OCF provided services to the senior members under a capitation contract for both physician and hospital services. Net revenue from Humana Inc., net of medical services to outside providers, in 2010 and 2009 approximated \$300,191,000 and \$271,905,000, respectively.

Managed Care — OCF has also entered into contractual arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

14. FUNCTIONAL EXPENSES

OCF provides general health care services primarily to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2010 and 2009, are as follows (in thousands):

	2010	2009
Health care services	\$1,207,360	\$1,132,190
General and administrative	342,003	275,350
Medical education	34,251	34,491
Research	10,499	9,224
Home health		1,973
Fitness center	11,808	11,296
Hotel	2,751	5,176
	<u>\$1,608,672</u>	<u>\$1,469,700</u>

15. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments — OCF leases assets under various rental agreements. The following schedule summarizes OCF's future annual minimum rental commitments on leases with a remaining term, as of December 31, 2010, in excess of one year (in thousands):

Years Ending December 31	
2011	\$23,257
2012	17,135
2013	11,567
2014	6,544
2015	5,081
Thereafter	<u>19,137</u>
Total	<u>\$82,721</u>

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was \$35,410,000 and \$32,459,000, respectively, for the years ended December 31, 2010 and 2009.

Transfer of Westbank to OCF — On September 14, 2008, OCH executed a bill of sale, assignment and assumption agreement with OCF to transfer the operations of the Westbank facility to OCF. Coincident therewith, a 10-year lease was executed to lease the Westbank facility building to OCF, and, subsequent thereto, the facility is being operated and licensed as a remote satellite campus of OCF. Amounts incurred related to this lease agreement were \$3,229,000 for the years ended December 31, 2010 and 2009 and are included in other operating expenses in the accompanying statement of operations. OCF's future annual minimum rental commitments related to this lease as of December 31, 2010 are as follows (in thousands):

Years Ending December 31	
2011	\$ 3,086
2012	3,148
2013	3,210
2014	3,275
2015	3,340
Thereafter	<u>9,378</u>
Total	<u>\$25,437</u>

St. Anne's Transaction — On May 1, 2006, OCF entered into certain lease and management service agreements with Lafourche Parish Hospital Service District No. 2 ("Lafourche") to 1) lease the 35-bed hospital it owns and operates known as St. Anne General Hospital and its facilities ("St. Anne") located in Raceland, Louisiana, 2) purchase certain assets and liabilities of St. Anne, and 3) provide managerial, administrative, financial, and technical support services to operate the hospital. Under the lease agreement, OCF is required to pay \$4.6 million in base rental payments for the use of the St. Anne buildings as well as make capital improvements to the facility based on predetermined levels of financial performance during the initial 15 year term. Total required rent payments, including the base rent and required capital improvements cannot exceed \$15 million over the initial term of the lease. Amounts due

under the terms of this agreement may be reduced through certain credits against required payments and capital improvements. All amounts owed under this agreement are payable on the last day of the lease term, but can be discharged, in whole or in part, before the end of the period. The term of the agreement is through 2021 with two options for renewal periods up to an additional 30 years. The building lease is accounted for as an operating lease under ASC 840, *Leases*, and lease commitments are included in the lease commitment schedule above.

In connection with the lease of the buildings, OCF purchased certain equipment and fixtures and the working capital of the hospital by issuing a note payable to Lafourche of \$7.1 million (see Note 10). The note payable is due to Lafourche. In addition, OCF assumed Lafourche's outstanding bonds payable of \$2.7 million which were subsequently paid in full by OCF. As noted above, OCF is required to make certain capital improvements over the term of the lease. Upon termination of the lease agreement, OCF is required to sell, and Lafourche is required to purchase, the assets included in the initial purchase, including any additional and replacement equipment similar to the type originally purchased, for a cash purchase price equal to the net book value of the assets as of the date of the lease termination. Revenues and expenses generated by St. Anne's operations since the inception of the lease are included in the consolidated statements of operations of OCF.

OCH Debt Guaranty — OCF has provided a joint and several Guarantee Agreement for Ochsner Community Hospital's \$83,910,000 LPFA bonds issued in 2007. The guaranty provided by OCF is secured by a mortgage and security interest in certain of OCH's assets as well as a pledge of revenues. OCF has also provided a joint and several Guarantee Agreement ("Guarantee Agreement") for OCH's notes payable of \$22,000,000 and \$25,000,000 issued in 2008 and 2007, respectively. The Guarantee Agreement provided by OCF is on parity with the guarantee above and secured by a mortgage and security interest in certain of OCH's assets as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable should OCH fail to pay. The maximum exposure OCF has on its Guarantee Agreement for OCH's debt as of December 31, 2010, is \$122,661,000, the amount of the outstanding debt, plus any accrued and unpaid interest. OCH is obligated to reimburse OCF for any amount OCF has to pay under the Guarantee Agreement, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH.

Contingencies — The health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OCF and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of its business. Management of OCF believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on OCF's consolidated statements of financial position or results of operations.

During 2009, OCF completed an on-going internal review of its past billing practices for certain Medicare inpatient and outpatient services and has been engaged in on-going discussions with the appropriate federal and state regulatory authorities as well as the fiscal intermediary related to this matter. OCF has concluded that the manner in which OCF billed the Medicare program for certain services resulted in an overpayment by the Center for Medicare and Medicaid Services from 1994 through 2007, the majority of which related to the 2004 through 2007 periods. OCF has since repaid a significant portion of the overpayments through cost report adjustments and submitted final repayment for the remaining amount in 2010.

In September 2009, OCF indefinitely suspended operations at its in vitro fertilization center due to the mislabeling of frozen embryos. There are 46 patients who have either filed a lawsuit or a claim before the Louisiana Patient Compensation Fund (PCF) alleging mishandling in the labeling and storage of embryos between 2004 and 2007. The Louisiana Patient's Compensation Fund has taken the position that this liability is not covered by the PCF. However, these cases are covered by Ochsner's professional liability coverage.

Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors ("RACs") to identify Medicare overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. During 2010, OCF was selected for review by RAC auditors. Management of OCF believes that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

16. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OCF received federal disaster relief funds of \$26,000,000 and \$13,000,000 for the years ended December 31, 2010 and December 31, 2009, respectively.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 — Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

Level 3 — Unobservable inputs for the asset or liability.

OCF endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OCF has elected the fair value option, are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

December 31, 2010				
Fair Value Measurements at Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds (a)	\$ 96,724	\$ -	\$ -	\$ 96,724
Fixed income investments (a)	80,266			80,266
Marketable equity securities (a)	127,053	26,295		153,348
Absolute return (b)			11,985	11,985
Private equity / venture capital (d)			5,864	5,864
Natural resources (b)	22,439	14,392	3,550	40,381
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			2,892	2,892
Treasury inflation protected securities (a)	4,293			4,293
Other			\$	\$
Total	\$ 330,775	\$ 46,128	\$ 24,296	\$ 401,199

December 31, 2009				
Fair Value Measurements at Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Money market funds (a)	\$ 73,101	\$ -	\$ -	\$ 73,101
Fixed income investments (a)	91,252			91,252
Marketable equity securities (a)	103,043	20,234		123,277
Absolute return (d)			11,179	11,179
Private equity / venture capital (d)			3,745	3,745
Natural resources (b)	12,173	12,615	2,338	27,126
Real estate (c)		5,441		5,441
Unconsolidated affiliates (e)			2,949	2,949
Treasury inflation protected securities (a)	8,187			8,187
Other			3	3
Total	\$ 287,756	\$ 38,290	\$ 20,214	\$ 346,260

(a) Valuation of these securities classified as Level 1 is based on unadjusted quoted prices in active markets that are readily and regularly available. Marketable equity securities classified as Level 2 are principally valued using the market and income approaches. Valuation is based primarily on quoted prices in markets that are not active, or using matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities.

(b) Represents funds invested in common/collective trust funds. Investments classified as Level 1 represent a fund that is publicly traded. Valuation of this fund is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 classification represents

a fund invested in a common/collective trust fund that invests in futures and forward contracts, options, and securities sold not yet purchased. The estimated fair value is based upon reported Net Asset Value (NAV) provided by fund managers and this value represents the amount at which transfers into and out of the fund are affected. This fund provides reasonable levels of price transparency and can be corroborated through observable market data.

- (c) Represents OCF's investments in real estate located in the New Orleans area. The estimated fair value is based on market prices for similar assets as these assets are not priced in active markets.
- (d) In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. However, if key inputs are unobservable, or if the investments are less liquid and there is very limited trading activity, the investments are generally classified as Level 3. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency in the process to develop the valuation estimates generally causing these investments to be classified in Level 3. This category includes funds that are invested in hedge fund and private equity investments that provide little or no price transparency due to the infrequency with which the underlying assets trade and generally require additional time to liquidate in an orderly manner. Accordingly, the values of these alternative asset classes are based on inputs that cannot be readily derived from or corroborated by observable market data and are based on investments balances provided by fund managers and adjusted for contributions and distributions in the event such balances pertain to an interim date. The investment return for the period in question is benchmarked against investment vehicles which management determines reasonably approximates the composition/nature of selected Level 3 investment.
- (e) Represents OCF's 25% interest in Southeast Louisiana Homecare LLC, a joint venture with a third party formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended December 31, 2010 and 2009 is as follows (in thousands):

Total Realized/Unrealized Gains (Losses) Included in:					
Balance, December 31, 2009	Gains	Other Comprehensive Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
<u>\$ 20,214</u>	<u>\$ 188</u>	<u>\$ 1,814</u>	<u>\$ 2,137</u>	<u>\$ (57)</u>	<u>\$ 24,296</u>
Total Realized/Unrealized Gains (Losses) Included in:					
Balance, December 31, 2008	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2009
<u>\$ 24,627</u>	<u>\$ 6,344</u>	<u>\$ (3,646)</u>	<u>\$ (4,231)</u>	<u>\$ (2,880)</u>	<u>\$ 20,214</u>

The FASB issued a standards update pertaining to Fair Value Measurements and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share in September 2009. Fair values are determined by the use of calculated net asset value per ownership share. In complying with the update, the following disclosures regarding OCF's investments at December 31, 2010 that feature net asset value per share in Level 2 and Level 3:

	Fair Value (In thousands)	Unfunded Commitments	Redemption frequency if currently eligible	Redemption Notice Period
Emerging Market - City of London (f)	\$21,554,206	\$ -	Monthly	30 days By the 22nd business day prior to redemption
Natural Resources (g)	14,391,511		Monthly	90 days
Hedge Fund (h)	11,985,139		Quarterly	5 business days prior to redemption
Small Cap Growth (i)	<u>4,741,120</u>	<u> </u>	15th and end of the month	
Total	<u>\$52,671,976</u>	<u>\$ -</u>		

(f) This is a commingled fund invested in equities

(g) This category includes an investment in a common trust fund comprised of approximately 55% equity, 25% commodity and 20% fixed income.

(h) This category includes investments in commingled hedge funds which invest in multi-strategy arbitrage, opportunities, distressed investment and long/short strategies.

(i) This is a commingled fund invested in small-cap growth equities.

18. SUBSEQUENT EVENTS

OCF completed its subsequent events review through March 31, 2011, the date on which the financial statements were available to be issued.

* * * * *

Ochsner Community Hospitals and Subsidiaries

Consolidated Financial Statements as of and for the
Years Ended December 31, 2010 and 2009, and
Independent Auditors' Report

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Ochsner Community Hospitals:

We have audited the accompanying consolidated balance sheets of Ochsner Community Hospitals and subsidiaries (OCH) as of December 31, 2010 and 2009, and the related consolidated statements of operations and changes in net deficit, and cash flows for the years ended December 31, 2010 and 2009. These consolidated financial statements are the responsibility of OCH's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCH's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 14 to the financial statements, OCH relies upon Ochsner Clinic Foundation, a related party, to provide certain financial assistance and guarantees, in the absence of which OCH could experience difficulty in sustaining operations.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OCH as of December 31, 2010 and 2009, and the results of its operations, changes in its net deficit, and its cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 31, 2011

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,300	\$ 1,358
Assets limited as to use required for current liabilities	92	84
Patient accounts receivable — net	26,173	25,009
Accounts receivable other	364	835
Pledges receivable — net	123	59
Inventories	3,603	4,164
Prepaid expenses and other current assets	1,947	1,122
Estimated third-party payor settlements — net	1,995	2,125
Total current assets	40,597	34,756
ASSETS LIMITED AS TO USE:		
Under bond indenture agreements	7,729	5,247
Under loan agreements	2,428	1,544
Under self-insurance trust fund	1,097	1,082
Donor restricted long-term investments	440	1,024
Total assets limited as to use	11,694	8,897
Less assets limited as to use required for current liabilities	(92)	(84)
Noncurrent assets limited as to use	11,602	8,813
INVESTMENT IN UNCONSOLIDATED AFFILIATE	499	368
PROPERTY — Net	92,924	93,480
OTHER ASSETS	1,372	1,419
TOTAL	<u>\$ 147,194</u>	<u>\$ 138,836</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 8,563	\$ 7,276
Accrued interest	542	564
Bonds payable — current portion	765	3,530
Long-term debt — current portion	903	625
Accrued salaries and wages	3,603	3,176
Accrued compensation for absences	2,136	1,967
Other	724	537
Total current liabilities	17,236	17,675
BONDS PAYABLE	74,522	75,239
LONG-TERM DEBT	44,469	45,094
DUE TO RELATED PARTIES	82,693	51,213
NOTES PAYABLE — Related party	25,401	38,473
OTHER LONG-TERM LIABILITIES	1,339	1,379
Total liabilities	245,660	229,073
TOTAL NET DEFICIT:		
Unrestricted	(99,047)	(91,325)
Temporarily restricted	581	1,088
Total net deficit	(98,466)	(90,237)
TOTAL	<u>\$ 147,194</u>	<u>\$ 138,836</u>

See notes to consolidated financial statements

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (In thousands)

	2010	2009
UNRESTRICTED REVENUES:		
Net patient service revenue	\$ 158,444	\$ 147,057
Other operating revenue	17,157	13,238
Net assets released from restrictions used for operations	48	2
Total unrestricted revenues	<u>175,649</u>	<u>160,297</u>
EXPENSES:		
Salaries and wages	71,333	64,676
Benefits	9,117	8,762
Depreciation and amortization	8,192	7,896
Interest — net of capitalized interest	5,318	5,775
Medical supplies and services	34,248	30,456
Provision for bad debts	17,102	14,768
Other operating expenses	<u>39,088</u>	<u>36,565</u>
Total expenses	<u>184,398</u>	<u>168,898</u>
OPERATING LOSS	(8,749)	(8,601)
NONOPERATING GAINS — Investment and other gains	5	57
NET ASSETS RELEASED FROM RESTRICTIONS USED FOR CAPITAL ACQUISITIONS	<u>1,022</u>	<u>—</u>
INCREASE IN UNRESTRICTED NET DEFICIT	<u>(7,722)</u>	<u>(8,544)</u>
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions — net of allowances	563	(189)
Investment income — net of payments to beneficiaries		14
Other		3
Net assets released from restrictions:		
Operations	(48)	(2)
Capital acquisitions	<u>(1,022)</u>	<u>—</u>
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	<u>(507)</u>	<u>(174)</u>
INCREASE IN NET DEFICIT	(8,229)	(8,718)
NET DEFICIT — Beginning of year	<u>(90,237)</u>	<u>(81,519)</u>
NET DEFICIT — End of year	<u>\$ (98,466)</u>	<u>\$ (90,237)</u>

See notes to consolidated financial statements.

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net deficit	\$ (8,229)	\$ (8,718)
Adjustments to reconcile increase in net deficit to net cash provided by operating activities:		
Depreciation and amortization	8,192	7,896
Provision for bad debts on patient accounts and other receivables	17,102	15,314
Gain on asset disposal		(1)
Contributions restricted for capital acquisitions	(563)	(357)
Accounts receivable	(18,266)	(16,240)
Other receivables	407	1,723
Inventories	561	(47)
Prepaid expenses and other current assets	(825)	621
Assets limited as to use	(2,797)	6,517
Estimated third-party payor settlements	130	3,711
Cash management overdraft		(1,042)
Accounts payable and other liabilities	1,925	(10,934)
Due to related parties	31,278	24,929
Net cash provided by operating activities	28,915	23,372
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,759)	(7,538)
Purchases of assets limited as to use and other investments	(131)	(368)
Proceeds from asset disposal		601
Net cash used in investing activities	(6,890)	(7,305)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital acquisitions	563	357
Repayments of bonds payable and long-term debt	(4,574)	(3,980)
Borrowings under note payable from Ochsner Clinic Foundation — net	(13,072)	(11,623)
Net cash used in financing activities	(17,083)	(15,246)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,942	821
CASH AND CASH EQUIVALENTS — Beginning of period	1,358	537
CASH AND CASH EQUIVALENTS — End of period	\$ 6,300	\$ 1,358
SUPPLEMENTAL DISCLOSURE — Cash paid for interest	\$ 4,310	\$ 4,642
SUPPLEMENTAL NONCASH INVESTING AND FINANCING ACTIVITIES — Purchases of property included in accounts payable	\$ 101	\$ 184

In 2010, OCH transferred equipment to OHS and OCH recorded a corresponding non cash decrease in due to related parties of \$1,000 (Note 5).

In 2009, OCH financed equipment purchases of \$697,000 (Note 7).

See notes to consolidated financial statements.

OCHSNER COMMUNITY HOSPITALS AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ochsner Community Hospitals (OCH) is a not-for-profit institution formed on July 17, 2006, to acquire the three former Tenet hospitals in the greater New Orleans area. The acquisition of the hospitals took place on October 1, 2006. The individual hospitals were formed as not-for-profit, wholly owned limited liability subsidiaries of OCH and are as follows:

- Ochsner Medical Center Kenner, LLC ("Kenner") — formerly Kenner Regional Medical Center in Kenner, Louisiana
- Ochsner Medical Center Westbank, LLC ("Westbank") — formerly Meadowcrest Hospital in Gretna, Louisiana (until the facility's operations were transferred to OCF on September 14, 2008, see Note 12)
- Ochsner Baptist Medical Center, LLC ("Baptist") — formerly Memorial Medical Center in New Orleans, Louisiana

The sole member of Ochsner Community Hospitals is Ochsner Health Systems (OHS or "Ochsner"), a not-for-profit, nonstock membership corporation. Ochsner Health Systems is also the sole member of Ochsner Clinic Foundation (OCF), whose consolidated financial statements include the accounts of the Ochsner Foundation Hospital, Ochsner Clinic LLC, and its wholly owned not-for-profit subsidiaries, Brent House Corporation, Ochsner Home Health Corporation, Ochsner DME LLC, Ochsner Bayou LLC, Gulf Coast Physician Network LLC, East Baton Rouge Medical Center, LLC (dba Ochsner Medical Center - Baton Rouge), Ochsner System Protection Company LLC (OSPC), and Ochsner Medical Center - Northshore, LLC.

The significant accounting policies used by OCH in preparing and presenting the consolidated financial statements follow:

Principles of Consolidation — The consolidated financial statements include the accounts of OCH and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Accounting — The consolidated financial statements of OCH have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Of particular significance to OCH's financial statements are allowances for doubtful accounts and estimates of amounts to be received under government healthcare and other provider contracts. Actual results could differ from those estimates.

Charity Care — OCH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Records of charges foregone for services and supplies furnished under the charity care policy are maintained to identify and monitor the level of charity care provided. Because OCH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone for charity care were approximately \$186,000 and \$122,000 for the years ended December 31, 2010 and 2009, respectively.

Cash and Cash Equivalents — Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less when purchased, excluding amounts whose use is limited by board designation or under bond indenture agreements or self-insurance agreements.

Inventories — Inventories are stated at the lower of first-in, first-out cost or market.

Assets Limited as to Use — Assets limited as to use primarily include assets held by trustees under indenture agreements and self-insurance trust agreements. Amounts required to meet current liabilities of the OCH have been classified in the consolidated balance sheets as current assets.

Property — Net — Property improvements and additions are recorded at cost and capitalized and depreciated on the straight-line basis over the following estimated useful lives of the assets, as follows:

	Years
Buildings and building improvements	30
Equipment, furniture, and fixtures	1–14

Impairment of Long-Lived Assets — OCH periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairment charges for the years ended December 31, 2010 and 2009.

Capitalization of Interest — OCH capitalizes interest expense on qualifying construction in progress expenditures based on an imputed interest rate estimating the OCH's average cost of borrowed funds for the project. Such capitalized interest becomes part of the cost of the related asset and is depreciated over its estimated useful life. OCH did not capitalize any interest costs in 2010. Capitalized interest costs totaled \$294,000 for the year ended December 31, 2009.

Deferred Financing Costs — In connection with the issuance of the Series 2007 bonds and notes payable (see Notes 6 and 7), financing costs approximating \$1,187,000 were capitalized and are being amortized over the respective lives of the bonds and notes payable. Accumulated amortization of these deferred financing costs approximated \$164,000 and \$114,000 at December 31, 2010 and 2009, respectively.

Professional and General Liability Insurance — OCH participates in a risk management program with OCF to provide for professional and general liability coverage. Under this program, OCH carries professional and general liability insurance coverage for up to \$25 million each of annual aggregate claims subject to certain deductible provisions.

OCH is self-insured with respect to the first \$100,000 of each claim for professional liability. General liability claims are subject to a retention of \$100,000 per claim. As stated below, professional liability claims are limited by Louisiana statute to \$100,000 per occurrence. OCH established a trust fund held by a financial institution. The amount to be contributed to this fund is determined annually by an independent actuary. Disbursements will be made from the fund for self-insured professional, general liability claims, administrative fees and legal fees. The trust fund assets total approximately \$1,097,000 and \$1,082,000 at December 31, 2010 and 2009, respectively. The estimated liability recorded by OCH for claims at December 31, 2010 and 2009, based on the actuarial report mentioned above and discounted at 2.7% and 4.1%, respectively, is approximately \$1,189,000 and \$1,167,000, respectively. Contributions made to the trust fund for the years ended December 31, 2010 and 2009, were \$39,000 and \$60,000, respectively. If the risk management program is terminated, the trust fund balance, if any, reverts to OCH after satisfaction of outstanding claims. Any proceeds from such a reversion would be used to reduce future costs for liability coverage.

In 1975, the State of Louisiana enacted the Medical Malpractice Act. The Act established the Patient's Compensation Fund and limited recovery in medical malpractice cases to \$500,000, the first \$100,000 of which is payable by the health care provider and the remainder of which is payable by the Patient's Compensation Fund for participants in the fund. OCH participates in the Patient's Compensation Fund. The limitation on recovery has been challenged and, to date, successfully defended in the courts. Expenditures recorded by OCH for participation in the Patient's Compensation Fund for the years ended December 31, 2010 and 2009, were approximately \$352,000 and \$356,000, respectively.

Consolidated Statements of Operations — For purposes of presentation, all revenues and expenses are reported as operating except for investment income and other gains, which are reported as nonoperating. The consolidated statements of operations and changes in net assets (deficit) include a decrease (increase) in unrestricted net assets (deficit), which is an indicator of financial performance.

Net Patient Service Revenue — Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined.

Estimated Workers' Compensation and Employee Health Claims — OCH is self-insured for workers' compensation and employee health claims. The provisions for estimated workers' compensation and employee health claims, totaling \$432,000 and \$409,000 at December 31, 2010 and 2009, respectively, include estimates for the ultimate costs for both reported claims and claims incurred but not reported in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*. These estimates incorporate OCH's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and the use of actuarial information.

Temporarily Restricted Net Assets — Temporarily restricted net assets are those whose use by OCH has been limited by donors to a specific time period or purpose.

Fair Value of Financial Instruments — The following methods and assumptions were used by OCH in estimating the fair value of its financial instruments:

Current Assets and Liabilities — OCH considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair values.

Bonds Payable — The fair value of OCH's revenue bond is based on currently traded values of similar financial instruments as disclosed in Note 6.

Related Party Payables — Because of the related party nature of the due to related parties and notes payable – related party, a determination of the fair value is not considered meaningful.

Income Taxes — OCH qualifies as a tax exempt organization under Section 501 (c)(3) and/or 509 (a)(1) of the Internal Revenue Code and is exempt from federal and state income taxes.

Concentration of Credit Risk — OCH grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

Risks and Uncertainties — OCH's business could be impacted by continuing price pressure on new and renewal business, OCH's ability to effectively control health care costs, additional competitors entering OCH's markets, Federal and State legislation in the area of health care reform. Changes in these areas could adversely impact OCH's operations in the future.

Reclassifications — We have recast certain amounts for prior periods to conform to our 2010 presentation. Current and noncurrent portion of bonds payable of \$3,530,000 and \$75,239,000, respectively, were reclassified from long-term debt — current portion and long-term debt, respectively, to bonds payable — current portion and bonds payable, respectively.

New Accounting Pronouncements — In August 2008, the FASB issued FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enhanced Disclosure for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 was codified in June 2009 as ASC Topic 205-958-45, *Presentation – Not for Profit Entities* (ASC 205). ASC 205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA, which the state of Louisiana enacted on July 1, 2010. During 2010, OCH was required to adopt the provisions of UPMIFA and ASC 205 retroactively as of January 1, 2009. The adoption of the provisions of UPMIFA and ASC 205 did not have an impact on the 2010 and 2009 consolidated financial statements.

2. INVESTMENTS

A summary of the carrying value of OCH's investments at December 31, 2010 and 2009, respectively, follows (in thousands):

	2010	2009
Cash and cash equivalents	\$ 2,974	\$ 2,709
U.S. government agencies	985	932
Money market funds	7,729	5,247
Other	<u>6</u>	<u>9</u>
Total assets limited as to use	11,694	8,897
Investment in unconsolidated affiliate	<u>499</u>	<u>368</u>
Total investments	<u>\$ 12,193</u>	<u>\$ 9,265</u>

Included in nonoperating gains in the consolidated financial statements for the years ended December 31, 2010 and 2009, respectively, is \$5,000 and \$57,000 of investment income.

3. PATIENT ACCOUNTS RECEIVABLE

At December 31, 2010 and 2009, OCH's patient accounts receivable balances were due from the following sources (in thousands):

	2010	2009
Managed care/indemnity	\$ 21,133	\$ 29,677
Patients	5,754	7,673
Government agencies	<u>10,517</u>	<u>9,034</u>
	37,404	46,384
Less allowance for doubtful accounts	<u>(11,231)</u>	<u>(21,375)</u>
Patient accounts receivable — net	<u>\$ 26,173</u>	<u>\$ 25,009</u>

4. PROPERTY — NET

A summary of property as of December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009	Estimated Useful Lives
Land	\$ 13,083	\$ 13,078	
Buildings	58,560	55,267	30 years
Equipment, furniture, and fixtures	40,418	36,592	1–14 years
Building and building improvements held for lease	5,489	5,489	30 years
Construction in progress	<u>1,011</u>	<u>1,070</u>	
	118,561	111,496	
Less accumulated depreciation	<u>(25,637)</u>	<u>(18,016)</u>	
	<u>\$ 92,924</u>	<u>\$ 93,480</u>	

Depreciation and amortization expense totaled approximately \$8,094,000 and \$7,896,000 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, OCH has purchase commitments of approximately \$1,156,000 and \$1,502,000, respectively, relating to the completion of various construction projects and purchases of equipment.

5. RELATED-PARTY TRANSACTIONS

Due to OHS and OCF — OCH pays fees to OHS for administrative support and oversight. Fees incurred totaled \$11,763,000, and \$8,049,000 for the years ended December 31, 2010 and 2009, respectively, and are included in salaries and wages, benefits, depreciation and amortization, medical supplies and services, and other operating expenses in the consolidated statement of operations and changes in net assets. At December 31, 2010 and 2009, amounts owed to OHS total \$32,311,000 and \$20,829,000, respectively, and are included in due to related parties in the accompanying consolidated balance sheets. In 2010, \$1,000 was included a reduction of due to related parties as amounts owed to OHS for equipment, furniture, and fixtures transferred to OHS. Payments for payroll, rent, and invoices were made by OCF on behalf of OCH totaling \$19,998,000 and \$17,224,000 at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, amounts owed to OCF total \$50,382,000 and \$30,384,000, respectively for these interest free advances and are included in due to related parties in the accompanying consolidated balance sheets. See Note 14 for discussion related to the operations of OCH and the continuation of financing by related parties.

Note payable — OCH has a revolving note payable with OCF in the original principal amount of \$60 million. Borrowings under the note payable bear interest at the Prime Rate (3.25% at December 31, 2010 and 2009). Interest payments are due monthly. Principal and other charges are due and payable on demand with no stated maturity date. The note is secured by a Mortgage and Security Agreement Securing Future Advances granted by OCH. During 2010 and 2009, OCH incurred interest expense totaling \$916,000 and \$1,516,000, respectively, to OCF. The notes payable balance as of December 31, 2010 and 2009, is \$25,401,000 and \$38,473,000, respectively, and is reported as notes payable — related party in the accompanying consolidated balance sheets.

Insurance coverage — Beginning May 31, 2010, OCF and OCH participate in a captive insurance program with OSPC which provides for certain of its property coverages accessed via the reinsurance market. Premiums paid by OCH total \$1,541,000 for the year ended December 31, 2010.

6. BONDS PAYABLE

In September 2007, OCH issued the Louisiana Public Facilities Authority Bond Series 2007-B bonds for the purpose of refinancing a portion of the interim loan from Lehman Brothers, which was used to acquire the Tenet Hospitals, as well as providing funding for capital projects. The \$83,910,000 Revenue Bonds were issued at fixed rates through the Louisiana Public Facilities Authority at a discount of approximately \$1,896,000 and mature in May 2047. At December 31, 2010 and 2009, bonds payable is as follows (in thousands):

	2010	2009
Louisiana Public Facilities Authority Bonds Series 2007-B, \$83,910,000 tax exempt bonds; due in varying installments through 2047 with interest fixed at rates ranging from 5.00% to 5.50%	\$ 77,025	\$ 80,555
Less unamortized discount	<u>(1,738)</u>	<u>(1,786)</u>
Total bonds payable	75,287	78,769
Less current portion of bonds payable	<u>(765)</u>	<u>(3,530)</u>
	<u>\$ 74,522</u>	<u>\$ 75,239</u>

Also, under the terms of the bond indenture, OCH is required to make certain deposits of principal and interest with a trustee. Such deposits are included with assets limited as to use in the financial statements.

The Series 2007-B bonds are general obligations of OCH and no assets were pledged as security for the bonds. The bonds are guaranteed by OCF through a joint and several Guarantee Agreement ("Guarantee Agreement") secured by a mortgage and security interest in certain of OCF's assets as well as a pledge of revenues. Under this Guarantee Agreement, OCF will be obligated to pay the guaranteed bonds and notes payable should OCH fail to pay. OCH is obligated to reimburse OCF for any amount OCF has to pay under the Guaranty Agreement, and the reimbursement obligation is secured by a mortgage and security interest on certain assets of OCH and its subsidiaries.

At December 31, 2010, scheduled repayments of principal and sinking fund installments to retire the bonds payable are as follows (in thousands):

Years Ending December 31

2011	\$ 765
2012	665
2013	850
2014	450
2015	350
Thereafter	<u>73,945</u>
	<u>\$ 77,025</u>

The estimated fair value of OCH's 2007-B Series bonds as of December 31, 2010 and 2009, respectively, is approximately \$66,499,000 and \$74,534,000.

7. LONG-TERM DEBT

A summary of long-term debt at December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Notes payable \$25 million, including interest at three-month LIBOR less 2.25% (0.00% at December 31, 2010 and 2009), due 2014	\$ 23,094	\$ 23,719
Notes payable \$22 million, including interest at three-month LIBOR less 2.35% (0.50% at December 31, 2010 and 2009), due February 2015	22,000	22,000
Equipment loan, due December 2011	<u>278</u>	<u> </u>
Total long-term debt	45,372	45,719
Less current portion of long-term debt	<u>(903)</u>	<u>(625)</u>
	<u>\$ 44,469</u>	<u>\$ 45,094</u>

In 2007, OCH entered into three separate loans in the form of notes payable with three separate lenders totaling \$25 million. The loans are eligible for federal income tax credits under the New Markets Tax Credits program implemented by Congress in December 2000. Borrowings under the notes payable bear interest at three-month LIBOR less 2.25% (0.00% at December 31, 2010 and 2009). Principal and interest payments are due in quarterly installments which commenced on October 1, 2007 and mature in October 2014. Each of the loans is guaranteed by OCF through the Guarantee Agreement noted above.

In 2008, OCH entered into a loan with another financial institution in the form of a note payable totaling \$22 million. The loan is eligible for the same federal income tax credits as the aforementioned \$25 million loan. Borrowings under the note payable bear interest at three-month LIBOR less 2.35%, subject to a 0.50% floor (0.50% at December 31, 2010 and 2009). Interest payments are due in quarterly installments which commenced on April 1, 2008, and the loan matures in February 2015. The principal payment is due in one lump sum on the maturity date. This loan is guaranteed by OCF through the Guarantee Agreement noted above.

In November 2009, OCH entered into an agreement to finance equipment purchases in the amount of \$697,000. Equipment purchases were received by OCH in March 2010. Principal payments are due in semi-annual installments which commenced on December 31, 2009 and mature in December 2011.

Aggregate maturities of long-term debt at December 31, 2010 follow (in thousands):

**Years Ending
December 31**

2011	\$ 903
2012	625
2013	1,094
2014	20,750
2015	<u>22,000</u>
	<u>\$45,372</u>

8. TEMPORARILY RESTRICTED NET ASSETS

OCH has 9 temporarily restricted funds established for a variety of purposes which are classified and reported based on the existence or absence of donor-imposed restrictions. OCH does not have any permanently restricted endowment funds.

The Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which the state of Louisiana enacted on July 1, 2010, requires OCH to classify the portion of each donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure (see Note 1).

At December 31, 2010, temporarily restricted net assets totaled \$581,000. This amount was decreased in 2010 by contributions of \$562,000 net of appropriations for expenditures of \$1,069,000. At December 31, 2009, temporarily restricted net assets totaled \$1,088,000. This amount was decreased in 2010 by an adjustment to contributions of \$172,000 and amounts appropriated for expenditures of \$2,000.

9. NET PATIENT SERVICE REVENUE

Net patient service revenue is recognized when services are provided. OCH has agreements with third-party payors that provide for payments to OCH at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

A summary of the significant payment arrangements with major third-party payors follows:

Medicare and Medicaid --- Inpatient acute care services and defined capital costs related to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services to Medicare beneficiaries are paid on a prospectively determined amount per procedure. Medicare skilled nursing care is paid on a prospectively determined amount per procedure. The Medicare program's share of indirect medical education costs is reimbursed based on a stipulated formula. The Medicare program's share of direct medical education costs is reimbursed based on a prospectively determined amount per resident. Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates. Outpatient services rendered to Medicaid program beneficiaries are reimbursed on a cost basis subject to certain limits.

OCH records retroactive Medicare and Medicaid settlements based upon estimates of amounts that are ultimately determined through annual cost reports filed with and audited by the fiscal intermediary. The difference between estimated and audited settlements is recorded as an adjustment to net patient service revenue in the year a determination is made. The favorable resolution of Medicare reimbursement issues under appeal by OCF is reported as an increase in net patient service revenue in the year the issue is resolved. The Medicare cost reports of Kenner, Westbank (until the facility's operations were transferred to OCF on September 14, 2008), and Baptist have been settled by the fiscal intermediary through September 30, 2006, respectively. The 2007 year of audited cost reports for OCH have been held by OCH's Medicare fiscal intermediary due to the nationwide re-examination of the 2007 Supplemental Security Income ratio being performed by the Centers for Medicare and Medicaid, the federal agency which administers Medicare and Medicaid. The fiscal intermediary has not settled any of OCH's Medicaid cost reports as of December 31, 2010.

Estimated amounts due to OCH for Medicare and Medicaid services are included in receivables at year end. Net revenues from government health care programs included in net patient service revenue for the years ended December 31, 2010 and 2009, were approximately \$48,323,000 and \$47,037,000, respectively.

As a result of retroactive settlements of certain prior year cost reports, OCH recorded changes in estimates during the year ended December 31, 2010 and 2009. Operating revenues decreased approximately \$386,000 in 2010 and approximately \$800,000 in 2009.

Humana Inc. — OCH entered into a provider contract with Humana Inc. to provide services for its commercial and senior members. The commercial members are reimbursed on a fee-for-service basis for physician services and at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates for hospital services. OCH provided services to the senior members under a capitation contract for both physician and hospital services. Net revenue from Humana Inc., net of medical services to outside providers, in 2010 and 2009 approximated \$17,597,000 and \$14,835,000, respectively.

Managed Care — OCH has also entered into contractual arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Inpatient and outpatient services rendered to managed care subscribers are reimbursed at prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

10. OTHER OPERATING REVENUE

The state of Louisiana, through its Medicaid program, appropriated funds for fiscal year 2008 through 2010 to hospitals demonstrating substantial financial and operational challenges in the aftermath of Hurricane Katrina. OCH received federal disaster relief funds of \$6,600,000 and \$3,300,000 for the years ended December 31, 2010 and December 31, 2009, respectively.

11. DEFINED CONTRIBUTION PLAN

All employees of OCH meeting eligibility requirements may participate in the Ochsner Clinic Foundation 401(k) Plan. Also, effective for the 2010 Plan Year, OCH may annually elect to make a retirement contribution on behalf of eligible employees in an amount up to 2% of the participant's annual Eligible Compensation. In addition, OCH may annually elect to make a match for eligible employees 50% of the first 4% the employees contribute into their 401(k). At December 31, 2010 and 2009, OCH has accrued \$1,282,000 and \$836,000 for matching contributions to the plan for the 2010 and 2009 fiscal years, respectively. Such payments are remitted to the Plan trustee in April following the respective December 31 year-end.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases — Lessee — OCH leases assets under various rental agreements. The following schedule summarizes OCH's future annual minimum rental commitments on leases with a remaining term, as of December 31, 2010 in excess of one year (in thousands):

Years Ending December 31	
2011	\$ 2,374
2012	2,215
2013	878
2014	19
Thereafter	<u>102</u>
Total	<u>\$ 5,588</u>

Rent expense, which relates primarily to cancelable or short-term operating leases for equipment and buildings, was \$3,547,000 and \$3,502,000 for the years ended December 31, 2010 and 2009, respectively.

Operating Leases — Lessor — OCH leases office space to third parties in its medical office buildings. Lease terms generally range from one to four years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under operating leases as of December 31, 2010 (in thousands):

Years Ending December 31	
2011	\$ 1,966
2012	1,579
2013	998
2014	<u>237</u>
Total minimum lease payments to be received	<u>\$ 4,780</u>

On September 14, 2008, OCH executed a bill of sale, assignment and assumption agreement with OCF to transfer the operations of the Westbank facility to OCF. Coincident therewith, a 10-year lease was executed to lease the Westbank facility building to OCF, and, subsequent thereto, the facility is being operated and licensed as a remote satellite campus of OCF. Amounts recorded related to this lease agreement were \$3,229,000 for the years ended December 31, 2010 and 2009, and are included in other operating revenue in the accompanying statement of operations. OCH's future annual minimum rental receipts related to this lease as of December 31, 2010 is as follows (in thousands):

**Years Ending
December 31**

2011	\$ 3,086
2012	3,148
2013	3,210
2014	3,275
2015	3,340
Thereafter	<u>9,378</u>
Total	<u>\$25,437</u>

Contingencies — The health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Such compliance with laws and regulations in the health care industry has come under increased government scrutiny. OCH and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of its business. Management of OCH believes the reserves it has established for these issues are adequate and does not believe, based on current facts and circumstances and after review with counsel, that these matters will have a material adverse effect on OCH's consolidated statements of financial position or results of operations.

Tax Relief and Health Care Act of 2006 authorized a permanent program involving the use of third-party recovery audit contractors ("RACs") to identify Medicare overpayments and underpayments made to providers. RACs are compensated based on the amount of both overpayments and underpayments they identify by reviewing claims submitted to Medicare for correct coding and medical necessity. Payment recoveries resulting from RAC reviews are appealable through administrative and judicial processes. The Affordable Care Act expanded the RAC program's scope by requiring all states to enter into contracts with RACs by December 31, 2010 to audit payments to Medicaid providers. CMS issued a letter to state Medicaid directors on October 1, 2010 that (1) provided preliminary guidance to states on the implementation of Medicaid RAC programs, (2) created a deadline of December 31, 2010 for states to establish RAC programs, and (3) established a deadline of April 1, 2011 for states to fully implement their RAC programs. On February 1, 2011, CMS issued a notice temporarily suspending the requirement that states implement their RAC programs until the final Medicaid RAC rule is issued. During 2010, OCH was selected for review by RAC auditors. Management of OCH believes that the reserves it has established based on preliminary results are adequate but cannot predict with certainty the impact of the Medicare and Medicaid RAC program on future results of operations or cash flows.

13. FUNCTIONAL EXPENSES

OCH provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31, 2010 and 2009, respectively, are as follows (in thousands):

	2010	2009
Health care services	\$ 131,164	\$ 137,483
General and administrative	53,203	26,455
Medical education	<u>31</u>	<u>4,960</u>
	<u>\$ 184,398</u>	<u>\$ 168,898</u>

14. OPERATIONS OF OCH

Since commencing operations in 2006, OCH's operations and capital expenditures have been primarily funded (i) through the issuance of long-term notes payable to third parties guaranteed by OCF, and (ii) by cash advances and the issuance of notes payable due on demand from OCF (a related party under common ownership and control). Specifically, OCH's liabilities include a note payable due on demand in the amount of \$25,401,000 and \$38,473,000 at December 31, 2010 and 2009, respectively, with OCF and operating advances from OCF of \$50,382,000 and \$30,384,000 at December 31, 2010 and 2009, respectively (see Note 5). OCH also has bonds payable outstanding of \$77,025,000 and \$80,555,000 at December 31, 2010 and 2009, respectively, and notes payable outstanding to third parties of \$45,372,000 and \$45,719,000 at December 31, 2010 and 2009, respectively, which are guaranteed by OCF (see Notes 5 and 6). OCH incurred a net operating loss of \$8,749,000 and \$8,601,000 for the years ended December 31, 2010 and 2009, respectively, and had liabilities that exceeded assets by \$98,466,000 and \$90,237,000 at December 31, 2010 and 2009, respectively. Management believes that its available funds, cash generated by operating activities, and funds made available from OCF will be sufficient to fund its working capital needs and planned capital expenditures for the next 12 months through January 1, 2012. OCF has committed to OCH to continue to provide or maintain financial support through the continuation of financing to enable OCH to meet and discharge its liabilities in the normal course of business as well as committed not to demand repayment of the note payable due on demand to OCF during this time. However, if OCF does not make available such additional funding to OCH when needed in the future, OCH could be unable to meet its obligations, including obligations under the bonds and notes payable, in the ordinary course of business. OCH requires the continued support from OCF until such time as it has sustained profitable operations and its financial condition is stable and no longer requires this support. Since 2006 significant capital investments of over \$75 million have been made to revitalize OCH's facilities and expand operations. Management is of the opinion that OCH will return to profitable operations and sustain positive cash flows such that it will be able to discharge its liabilities in the normal course of business.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. ASC 820 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. ASC 820 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 — Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices are observable for the asset or liability.

Level 3 — Unobservable inputs for the asset or liability.

OCH endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

Assets and Liabilities Measured at Fair Value —

Recurring Fair Value Measurements — The fair value of assets and liabilities measured at estimated fair value on a recurring basis, including those items for which OCH has elected the fair value option, are estimated as described in the preceding section. These estimated fair values and their corresponding fair value hierarchy in accordance with ASC 820 are summarized as follows (in thousands):

December 31, 2010				
Fair Value Measurements at Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Assets:				
Money market (a)	\$ 11,694	\$ -	\$ -	\$ 11,694
Unconsolidated affiliate (b)			499	499
Total assets	<u>\$ 11,694</u>	<u>\$ -</u>	<u>\$ 499</u>	<u>\$ 12,193</u>
December 31, 2009				
Fair Value Measurements at Reporting Date Using				
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Estimated Fair Value
Assets:				
Money market (a)	\$ 8,897	\$ -	\$ -	\$ 8,897
Unconsolidated affiliate (b)			368	368
Total assets	<u>\$ 8,897</u>	<u>\$ -</u>	<u>\$ 368</u>	<u>\$ 9,265</u>

(a) Valuation of these securities is based on unadjusted quoted prices in active markets that are readily and regularly available.

(b) Represents OCH's 25% interest in Southeast Louisiana Homecare LLC, a joint venture with a third party formed in 2009. Fair value is based on the operations of the joint venture.

A rollforward of the fair value measurements for all assets and liabilities measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended December 31, 2010 is as follows (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
Total Realized/Unrealized					
Gains (Losses) included in:					
Balance, December 31, 2009	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2010
Unconsolidated affiliate	\$ -	\$ -	\$ 131	\$ -	\$ 499

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
Total Realized/Unrealized					
Gains (Losses) included in:					
Balance, December 31, 2008	Losses	Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, December 31, 2009
Unconsolidated affiliate	\$ -	\$ -	\$ 368	\$ -	\$ 368

16. SUBSEQUENT EVENTS

OCH completed its subsequent events review through March 31, 2011, the date on which the financial statements were available to be issued.

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